

## Confirmation Letter

Name of Client/Company: \_\_\_\_\_

Account No.: \_\_\_\_\_

### Re: Knowledge of Trading Derivative Products

This letter is written in furtherance to the answer that I/we provided in Part (C), Section 1 of the Customer Profiling Questionnaire (“CPQ”) concerning my/our knowledge of derivative products, in which I/we indicated that I/we do not have knowledge of derivative products.

I/We confirm and acknowledge that I/we am/are aware that, in the event that any client does not have knowledge of derivative products, China Everbright Securities International Company Limited and its subsidiaries and affiliates (collectively referred to as “EBSI”), will prohibit EBSI’s staff, agents or Wealth Managers from soliciting the client to enter into any transaction involving any derivative product, or from making any recommendation to the client to enter into such transaction. I/We confirm that I/we have received no such solicitation or recommendation and I/we undertake and agree that should such occur, I/we will report it to GeneralResponse@EBSHK.com.

I/We understand that I/we may, at my/our own volition, wish to enter into a transaction involving one or more derivative products, and EBSI may agree to assist me/us to enter into such transaction if EBSI has assurance that I/we understand the nature and risks associated with the transaction and I/we have sufficient net worth to be able to assume the risks and to bear the potential losses associated with the transaction. I/We acknowledge and understand that if I/we request EBSI to assist me/us to enter into any transaction involving one or more derivative products, I/we will have carefully considered my/our investment objectives, financial resources and other factors that are relevant to my/our circumstances. I/We acknowledge and understand that all derivative products carry potential substantial risk, which may result in total or significant loss of my/our investment. I/We understand that, unless I/we am/are a professional investor within the meaning of the Securities and Futures Ordinance, I/we will not be permitted to trade in unlisted derivative products until I/we have demonstrated the requisite level of knowledge and/or experience.

I/We acknowledge and confirm that EBSI has provided me/us with explanations of the relevant risks associated with trading derivative products, including the Risk Disclosure Statements accompanying this letter as Appendix I, which I/we have read and fully understood, or which I/we forthwith undertake to read in full. I/We confirm that I/we have been given ample opportunity to ask questions and seek independent professional advice concerning the contents of this letter and Appendix I and I/we will further consult EBSI and/or seek independent professional advice should I/we require clarification of any matter.

\_\_\_\_\_  
Client/Director/Authorized Person’s signature

\_\_\_\_\_  
Name of Director/Authorized Person (if applicable)

\_\_\_\_\_  
Client/Director/Authorized Person’s ID or Passport no.

\_\_\_\_\_  
Company no. (if applicable)

\_\_\_\_\_  
Date

**APPENDIX I**  
**RISK DISCLOSURE STATEMENTS**

This risk disclosure statement does not purport to disclose or discuss all of the risks, or other significant aspects, of trading in derivatives products. In light of the risks involved, you (i.e. Client) should undertake a transaction only if you understand its nature, the contractual relationship into which you are entering, and the nature and extent of your exposure to risk. You should also consider whether a transaction is appropriate for you in light of your experience, objectives, financial resources and other relevant circumstances. While EBSI proposes to give this general risk warning, it is not acting as your financial advisor and you must not regard EBSI as so acting. You should consult your own independent legal, tax or financial advisors prior to entering into any transaction.

**RISKS OF TRADING IN EXCHANGE-TRADED STRUCTURED PRODUCTS (“STRUCTURED PRODUCTS”) E.G. DERIVATIVE WARRANTS (“WARRANTS”), CALLABLE BULL/BEAR CONTRACTS (“CBBC”)**

**1. Issuer default risk**

In the event that a Structured Product issuer becomes insolvent and defaults on their listed securities, investors will be considered as unsecured creditors and will have no preferential claims to any assets held by the issuer. Investors should therefore pay close attention to the financial strength and credit worthiness of structured product issuers.

Note: “Issuers Credit Rating” showing the credit ratings of individual issuers is now available under the Issuer and Liquidity Provider Information sub-section under Derivative Warrants and under CBBCs section on the corporate website of the Hong Kong Stock Exchange (“**HKEx**”).

**2. Uncollateralized product risk**

Uncollateralized Structured Products are not asset backed. In the event of issuer bankruptcy, investors can lose their entire investment. Investors should read the listing documents to determine if a product is uncollateralized.

**3. Gearing risk**

Structured Products such as Warrants and CBBCs are leveraged and can change in value rapidly according to the gearing ratio relative to the underlying assets. Investors should be aware that the value of a Structured Product may fall to zero resulting in a total loss of the initial investment.

**4. Expiry considerations**

Structured Products have an expiry date after which the issue may become worthless. Investors should be aware of the expiry time horizon and choose a product with an appropriate lifespan for their trading strategy.

**5. Extraordinary price movements**

The price of a Structured Product may not match its theoretical price due to outside influences such as market supply and demand factors. As a result, actual traded prices can be higher or lower than the theoretical price.

**6. Foreign exchange risk**

Investors trading Structured Products with underlying assets not denominated in Hong Kong dollars are also exposed to exchange rate risk. Currency rate fluctuations can adversely affect the underlying asset value, also affecting the Structured Product price.

**7. Liquidity risk**

The Exchange requires all Structured Product issuers to appoint a liquidity provider for each individual issue. The role of liquidity providers is to provide two way quotes to facilitate trading of their products. In the event that a liquidity provider defaults or ceases to fulfill its role, investors may not be able to buy or sell the product until a new liquidity provider has been assigned. There is no guarantee that investors will be able to buy or sell their Structured Products at their target price any time they wish.

**SOME ADDITIONAL RISKS INVOLVED IN TRADING WARRANTS**

**1. Time decay risk**

All things being equal, the value of a Warrant will decay over time as it approaches its expiry date. Warrants should therefore not be viewed as long term investments.

**2. Volatility risk**

Prices of Warrants can increase or decrease in line with the implied volatility of underlying asset price. Investors should be aware of the underlying asset volatility.

**3. Market Risk and Turnover**

Other than basic factors that determine the theoretical price of a Warrant, Warrant price are also affected by all prevailing market forces including the demand for and supply of the Warrants. The market forces will be greatest when a Warrant issue is almost sold out and when issuers make further issues of an existing Warrant issue. High turnover should not be regarded as an indication the price of a Warrant will go up. The price of a Warrant is affected by a number of factors in addition to market forces, such as the price of the underlying assets and its volatility, the time remaining to expiry, interest rates and the expected dividend on the underlying assets.

**SOME ADDITIONAL RISKS INVOLVED IN TRADING CBBCS**

**1. Mandatory call risk**

Investors trading CBBCs should be aware of their intraday “knockout” or mandatory call feature. A CBBC will cease trading when the underlying asset value equals the mandatory call price/level as stated in the listing documents. Investors will only be entitled to the residual value of the terminated CBBC as calculated by the product issuer in accordance with the listing documents. Investors should also note that the residual value can be zero.

**2. Funding costs**

The issue price of a CBBC includes funding costs. Funding costs are gradually reduced over time as the CBBC moves towards expiry. The longer the duration of the CBBC, the higher the total funding costs. In the event that a CBBC is called, investors will lose the funding costs for the entire lifespan of the CBBC. The formula for calculating the funding costs are stated in the listing documents.

### 3. Trading of CBBC Close to Call Price

When the underlying asset is trading close to the call price, the price of a CBBC may be more volatile with wider spreads and uncertain liquidity. CBBC may be called at any time and trading will terminate as a result. However, the trade inputted by the investor may still be executed and confirmed by the Exchange participants after the Mandatory Call Event ("MCE") since there may be some time lapse between the MCE time and suspension of the CBBC trading. Any trades executed after the MCE will not be recognized and cancelled. Therefore, investors should be aware of the risk and ought to apply special caution when the CBBC is trading close to the call price.

For more information on Warrants and CBBCs, please visit the HKEx corporate website:

Derivative Warrants, Products & Services Section

(<http://www.hkex.com.hk/eng/prod/secprod/dwrc/dw.htm>)

Callable Bull/Bear Contracts, Products & Services Section

(<http://www.hkex.com.hk/eng/prod/secprod/cbbc/Intro.htm>)

## **RISK OF TRADING IN OPTIONS CONTRACTS ("OPTIONS") (INCLUDING BUT NOT LIMITED TO STOCK OPTIONS, INDEX OPTIONS, FUTURES OPTIONS, ETC.) AND FUTURES CONTRACTS ("FUTURES")**

The risk of loss in trading in futures and/or 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.

This brief statement does not disclose all of the risks and other significant aspects of trading in futures and/or options. In light of the risks, you should undertake such transactions only if you understand the nature of the contracts (and contractual relationships) into which you are entering and the extent of your exposure to risk. Trading in futures and/or options is not suitable for many members of the public. You should carefully consider whether trading is appropriate for you in light of your experience, objectives, financial resources and other relevant circumstances.

### 1. FUTURES:

Transactions in futures carry a high degree of risk. The amount of initial margin is small relative to the value of the futures contract so that transactions are "leveraged" or "geared". A relatively small market movement will have a proportionately larger impact on the funds you have deposited or will have to deposit: this may work against you as well as for you. You may sustain a total loss of initial margin funds and any additional funds deposited with the firm to maintain your position if the market moves against your position. In the event that margin levels are increased, you may be called upon to pay substantial additional funds on short notice to maintain your position. If you fail to comply with the request for additional funds within the time prescribed, your position may be liquidated at a loss and you will be liable for any resulting deficit.

#### Risk-reducing orders or strategies

The placing of certain orders (e.g. "stop-loss" orders, or "stop-limit" orders), which are intended to limit losses to certain amounts, may not be effective because market conditions may make it impossible to execute such orders. Strategies using combinations of positions, such as "spread" and "straddle" positions may be as risky as taking simple "long" or "short" positions.

### 2. OPTIONS:

#### Variable degree of risk

Transactions in options carry a high degree of risk. Purchasers and sellers of options should familiarize themselves with the type of option (i.e. put or call) which they contemplate trading and the associated risks.

#### **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). I/We understand that upon exercise, some options require delivery and receipt of the underlying securities, and that other options require a cash payment.
- An option is a wasting asset and there is a possibility that as an option holder I/we may suffer the loss of the total premium paid for the option.

I/We 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. I/We acknowledge that you have no obligation either to exercise a valuable option in the absence of my/our instruction, or to give to me/us prior notice of the expiration date of the option.

#### **Warning to option writers**

- As a writer of an option I/we may be required to pay additional margin at any time. I/We acknowledge that as an option writer, unlike an option holder, I/we be liable for unlimited losses based on the rise or fall of the price of the underlying securities and my/our 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 (or pay for) the underlying securities to the full value of the strike price multiplied by the number of underlying securities. I/we 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.

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 purchased options expire worthless, you understand that you will suffer a total loss of your investment which will consist of the option premium plus transaction costs. If you are contemplating purchasing deep-out-of-the-money options, you should be aware that the chance of such options becoming profitable ordinarily is remote.

Under some circumstances it may be difficult to trade the option due to lack of liquidity in the market. You acknowledge that EBSI has no obligation either to exercise a valuable option in the absence of your instruction, or to give to you prior notice of the expiration date of the option.

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 unfavorably. 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 “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.

### 3. Additional Risks Common to Futures and/or Option

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

You should ask EBSI about the terms and conditions of the specific futures and/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. You acknowledge that if you have sold options, this may increase the risk of loss.

Further, normal pricing relationships between the underlying interest and the option 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 familiarize yourself with the protections given to money or other property you deposit for domestic and foreign transactions, particularly in the event of a firm’s 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. By commencing any trading activities with EBSI, you acknowledge that you have been so informed by EBSI.

#### (e) 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 understand that you should ask the firm with which you deal for details in this respect.

#### (f) 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.

#### (g) 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.

#### (h) 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.

#### (i) Off-exchange transactions

In some jurisdictions, and only then in restricted circumstances, firms are permitted to effect off-exchange transactions. The firm with which you deal may be acting as your counterparty to the transaction. It may be difficult or impossible to liquidate an existing position, to assess the value, to determine a fair price or to assess the exposure to risk. For these reasons, these transactions may involve increased risks. Off-exchange transactions may be less regulated or subject to a separate regulatory regime. Before you undertake such transactions, you should familiarize yourself with applicable rules and attendant risks.

### **RISKS OF TRADING IN DERIVATIVE BASED EXCHANGE TRADED FUND (“ETF”) – (INCLUDING BUT NOT LIMITED TO SYNTHETIC ETF)**

Trading in the ETF(s) may not be suitable for all investors. You are advised to carefully consider whether trading in the ETF(s) is/are appropriate for you in your understanding of the product nature and characteristics, your own investment objectives, skills and experience, financial resources, risk tolerance and other relevant circumstances prior to making any decision. There are a number of risks associated with the ETFs that investors should be aware of when considering to invest. These risks include (but not limited to) the following:

#### **Market Risk**

ETFs are typically designed to track the performance of certain indices, market sectors, or group of assets such as stocks, bonds, or commodities. Investors are exposed to the political, economic, currency and other risks related to the ETF's underlying index/assets it is tracking. Investment must be prepared to bear the risk of loss and volatility associated with the underlying index/asset.

#### **Passive investments risk**

ETF is not "actively managed" and therefore, when there is a decline in the underlying index, the ETF that tracks the index will also decrease in value. The ETF Manager will not take defensive positions in declining markets; investors may lose a significant part of their respective investments if the underlying Index falls.

#### **Counterparty Risk**

Synthetic ETF typically invests in derivatives to replicate the index performance, investors are exposed to the credit risk of the counterparties who issued the derivatives, in addition to the risks relating to the index, Further, potential contagion and concentration risks of the derivatives issuers should be taken into account (e.g. since derivative issuers are predominantly international financial institutions, the failure of one derivative counterparty of Synthetic ETF may have a "knock-on" effect on other derivative counterparties of the Synthetic ETFs, which thus may amplify the relevant risk). Some Synthetic ETFs have collateral to reduce the counterparty risk, but there may be a risk that the market value of the collateral has fallen substantially when the Synthetic ETF seeks to realize the collateral.

#### **Liquidity Risk**

There is no assurance that a liquid market exists for an ETF. A higher liquidity risk is involved if a Synthetic ETF involves derivatives which do not have an active secondary market. Wider bid-offer spreads in the price of derivatives may result in losses. Therefore, they can be more difficult costly to unwind early, when the instruments provide access to a restricted market where liquidity is limited.

#### **Tracking Error Risk**

There may be disparity between the performance of the ETFs and the performance of the underlying index due to, for instance, failure of the tracking strategy, currency differences, fees and expenses. Depending on its particular strategy, an ETF may not hold all the constituent securities of an underlying index in the same weightings as the constituent securities of the index. Therefore, the performance of the securities underlying the ETF as measured by its NAV may outperform or under-perform the index.

#### **Trading at a Discount or Premium**

Where the index/ market that the ETF tracks is subject to restricted access, the efficiency in unit creation or redemption to keep the price of the ETFs in line with its net asset value (NAV) may be disrupted, causing the ETF to trade at a higher premium or discount to its NAV. Investors who buy an ETF at a premium may not be able to recover the premium in the event of termination.

#### **ETF Termination Risk**

An ETF may be terminated early under certain circumstances, for example, where the index is no longer available for benchmarking or if the size of the ETF falls below a pre-determined NAV threshold as set out in the constitutive documents and offering documents. Investors should refer to the section in the offering document relating to termination for further details. Investors should also note that the trading of ETF units may be adversely affected in the secondary market as the creation of units will cease once the termination of the ETF is announced. As a result, the trading price of such ETF units may become very volatile resulting in substantial losses to investors.

#### **Foreign Exchange Risk**

Investors trading ETFs with underlying assets not denominated in Hong Kong dollars are also exposed to exchange rate risk. Currency rate fluctuations can adversely affect the underlying asset value, also affecting the ETFs price.

### **RISKS OF TRADING IN LEVERAGED AND INVERSE PRODUCTS ("L&I PRODUCTS")**

L&I Products are issued in the form of Exchange traded Funds ("ETFs") as a type of collective investment schemes but they are in fact derivative products. Leveraged Products typically aim to deliver a daily return equivalent to a multiple of the underlying index return that they track. Inverse Products typically aim to deliver the opposite of the daily return of the underlying index that they track. In overseas markets, they are commonly known as Leveraged and/ or Inverse ETFs. To produce the specified leveraged or inverse return, L&I Products have to rebalance their portfolios, typically on a daily basis. As such, they do not share the buy-to-hold characteristics of conventional ETFs. Investors should understand how the performance of L&I Products is likely to be affected when they are held for more than one trading day and its compounding effect. They should be aware that any small variation in the underlying index return may have a large effect on the value of the product you hold.

Investors should note the following salient features about L&I Products:

- It is not advisable to hold L&I Products for longer than the rebalancing interval, typically one day;
- L&I Products are designed as a trading tool for short-term market timing or hedging purposes, and are not intended for long term investment;
- L&I Products are only suitable for sophisticated trading-oriented investors who constantly monitor the performance of their holdings on a daily basis; and
- the performance of L&I Products, when held overnight, may deviate from the underlying indices.

The risk of loss in trading in L&I Products is substantial. In particular, they are not suitable for investors who are unfamiliar with the features and risks of L&I Products, as they are designed for daily investment results, and/or investors who are looking for a long-term investment and cannot actively monitor their holdings. Therefore, L&I Products are normally not suitable for many members of the public who wish to invest in collective investment schemes or ETFs as a low risk exchange-listed product in order to diversify their investment risks. The regulatory authorities have, taking into account their special risk profile, prohibited and/ or discouraged the use of margin finance for investment in L&I Products. Investors must carefully consider whether trading is appropriate for you in light of your experience, objectives, financial resources and other relevant circumstances. Whilst they are listed, there is no assurance that a liquid market always exists for the L&I Products concerned. A higher liquidity risk is involved if the product involves derivatives which do not have an active secondary market. Wider bid-offer spreads in the price of the products may result in losses. Therefore, they can be more difficult and costly to unwind early, when the instruments provide access to a restricted market where liquidity is limited. There may be disparity between the performance of the L&I Product concerned and the performance of the underlying indices due to, for instance, failure of the tracking strategy, currency differences, fees and expenses. L&I Products may currently be traded, cleared and settled in Hong Kong dollars, Renminbi and/or US dollars. Investors trading with underlying assets not denominated in Hong Kong dollars are also exposed to exchange rate risk. Currency rate fluctuations can adversely affect the underlying asset value, also affecting the product price. Like ETFs, the risk of L&I Products can include counterparty risk, market risk, tracking errors, trading at discount or premium, and liquidity risk.

The specific risks presented by L&I Products necessarily depend upon the terms of the issued product and your circumstances. In general, however, they all involve some combination of market risk, credit risk, funding risk and operational risk.

1. Market risk is the risk that the value of a transaction will be adversely affected by fluctuations in the level or volatility of or correlation or relationship between one or more market prices, rates or indices or other market factors or by illiquidity in the market for the relevant transaction or in a related market.
2. Credit risk is the risk that a counterparty will fail to perform its payment or other obligations when due.
3. Funding risk is the risk that, as a result of mismatches or delays in the timing of cash flows due from or to the counterparties in the relevant transaction in question or related hedging, trading, collateral or other transactions, the parties or a party to the relevant transactions will not have adequate cash available to fund current obligations.
4. Operational risk is the risk of loss arising from inadequacies in or failures of the issuer's and/or your internal systems and controls for monitoring and quantifying the risks and contractual obligations associated with the transaction in question, for recording and valuing the portfolio and related transactions, or for detecting human error, systems failure or management failure.

Although L&I Products are listed as ETFs, the Hong Kong Stock Exchange does not endorse any product or bear any responsibility and/or liability for any of their existence or performance.

You should therefore study and understand L&I Products before you trade and carefully consider whether such trading is suitable in the light of your own financial position and investment objectives.

This brief statement does not disclose all of the risks and other significant aspects of trading in L&I Products. In light of the risks, you should undertake such transactions only if you understand the nature of the contracts (and contractual relationships) into which you are entering and the extent of your exposure to risk. You should not construe this generic disclosure statement as business, legal, tax or accounting advice or as modifying applicable law. You should consult your own business, legal, tax and accounting advisers with respect to proposed L&I Product transactions and you should refrain from entering into any transaction unless you have fully understood the terms and risks of the transaction, including the extent of your potential risk of loss.

#### **RISK OF TRADING IN LEVERAGED FOREIGN EXCHANGE CONTRACTS**

The risk of loss in leveraged foreign exchange trading can be substantial. 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 limit losses to the intended amounts. 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 carefully consider whether such trading is suitable in light of your own financial position and investment objectives.

#### **RISKS OF TRADING RIGHTS ISSUE**

A rights issue is a one-time offering of shares in a company to existing shareholders, allowing them an opportunity to maintain their proportional ownership without being diluted by buying additional new shares at a discounted price on a stated future date. Until the date at which the new shares can be purchased, investors may trade the rights to the market the same way they would trade ordinary shares. If the investors do not exercise their rights within the specified period of time, the rights will expire. If the investors do not intend to exercise their rights, they can sell them on the open market. Once exercised, the rights cannot be used again.

#### **Risks associated with Rights Issue**

1. It is easy to be enticed by shares offered at a discount, but you should not assume that you are getting a bargain. An informed decision should be made by looking at the rationale behind the fund raising exercise.
2. A company may use a rights issue to cover debt, especially when they are unable to borrow money from other sources. You should be concerned with whether or not the management is addressing any underlying problems.
3. If you decide not to take up the rights your overall shareholding in the company will be diluted as a result of the increased number of shares in issue.
4. If you do not participate in the rights issue within the specified time-frame your nil-paid rights will lapse.

Investments and income arising from them can fall in value and you may get back less than you originally invested.