KGI SECURITIES (SINGAPORE) PTE. LTD. ("KGI Securities")
RISK DISCLOSURE STATEMENT

Introduction

The objective of this document is to provide information concerning the types of trading and investments which can involve special risks in order for you to make an informed assessment of the risks and uncertainties associated with investing or trading in securities, derivatives and structured products before you undertake such transactions through your broker. The associated risk of loss in entering into such transactions can be substantial.
This document cannot be and is not sufficient to explain all the risks and other significant aspects of entering into the various types of transactions discussed in this document. You should therefore fully understand the nature of the transactions and contractual relationships, the extent of your exposure to risk and the potential losses that can be incurred and, as appropriate, consult your financial and tax advisers or other professional advisers before entering into such transactions. In particular, derivatives transactions and structured products are not suitable for many members of the public. You should carefully consider whether such transactions are suitable for you in light of your financial resources, experience, objectives for engaging in the transactions, ability to bear risks and other relevant circumstances.
Section A of this document sets out some general investment risks relating to most transactions generally. Section B explains the risks surrounding certain investments and derivatives .Section C discusses non-traditional investments (such as hedge funds) and investments in the emerging markets.

Please read through this document carefully and consult your broker if you have any questions.

Section A - General Investment Risks

There are various risks of a general nature associated with investing and transacting in securities, derivatives and structured products. These include but are not limited to the following.

Potential losses
You may sustain substantial losses on the transactions if market conditions move against your positions. It is in your interest to understand fully the impact of market movements, in particular the extent of profit or loss you would be exposed to when there is an upward or downward movement in the relevant rates. Your position on various transactions may be liquidated at a loss and you will then be liable for any resulting deficit in your account with your broker. Under certain circumstances, it may be difficult to liquidate an existing position, assess the value, determine a fair price or assess your exposure to risk.

Risk of securities trading
The prices of securities can and do fluctuate, sometimes dramatically, and may become valueless. It is as likely that losses will be incurred rather than profit made as a result of buying and selling securities. In addition, securities regulations and investor protection rules vary with different exchanges. Some may expose investors in securities listed on those exchanges to high investment risk. In particular, certain exchanges allow companies to list with neither a track record of profitability nor any obligation to forecast future profitability. Such securities may be very volatile and illiquid and their greater risk profiles mean that trading on such exchanges or in such securities may be more suited to professional or sophisticated investors. You should seek independent professional advice if you are uncertain of or have not understood any aspect of the nature of the exchange or the risks involved in trading such securities.
In the case of shares of smaller companies (sometimes known as "penny shares"), there may be a greater risk of loss because there may proportionately be a large difference between the buying price and the selling price of these shares. If they have to be sold immediately, you may get back much less than the amount that you paid for them.

Liquidation of positions
Under certain market conditions you may find it difficult or impossible to liquidate a position. This may arise from the rules in certain markets (for example, the rules of a particular exchange may provide for "circuit breakers" where trading is suspended or restricted at times of rapid price movements).
Placing contingent orders, such as "stop-loss" or "stop-limit" orders, will not necessarily limit your losses to the intended amounts, as it may be difficult or impossible to execute such orders without incurring substantial losses under certain market conditions. Strategies using combinations of positions, such as "spread" or "straddle" positions may be as risky as taking simple "long" or "short" positions.

Risk of margin trading
The risk of loss in leveraged trading or financing a transaction by deposit of collateral is significant. The high degree of leverage that is often obtainable in margin trading can work against you as well as for you due to fluctuating market conditions. You may sustain large losses as well as gains in response to a small market movement. While the amount of the initial margin required to enter into a transaction may be small relative to the value of the transaction, a relatively small market movement would have a proportionately larger impact. You may sustain losses in excess of your cash and any other assets deposited as collateral with your broker. You may be called upon at short notice to make additional margin deposits or interest payments. You should be aware that you may not be entitled to an extension of time when a margin call is made. If the required margin deposits or interest payments are not made within the prescribed time, your collateral may be liquidated without your consent. Moreover you will remain liable for any resulting deficit in your account and interest charged on your account. You should be aware that your broker may liquidate your collateral without contacting you. Further, your broker may be entitled to decide which collateral to liquidate in order to best protect its interests. You should therefore carefully consider whether such trading or financing arrangement is suitable in light of your financial position and investment objectives.

Securities borrowing
When you borrow securities, you should be aware that failure to return the borrowed securities to your broker on your broker's demand could lead to your broker effecting a buy in without further consultation with you, and you may then be liable for the total costs and expenses incurred by your broker arising from such buy in.

Pricing relationships
The normal pricing relationships between a derivative and its underlying assets may not exist in certain circumstances. The absence of an underlying reference price may make it difficult to assess the "fair" value of a derivative position. Under certain circumstances, the specifications of outstanding contracts (including the exercise price of an option or a warrant) may be modified by

an exchange or clearing house to reflect changes in the underlying asset.

Tax risks

Before entering into any transaction you should understand the tax implications of doing so, e.g. income tax. Different transactions may have different tax implications. The tax implications are dependent upon the nature of your business activities and the transactions in question. You should therefore consult your tax adviser to understand the relevant tax considerations.

Currency risks

The profit and 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 and the difference between the buying price and the selling price of a currency where there is a need to convert from the currency denomination of the contract to another currency.

Counterparty risks

All transactions that are executed upon your instructions with counterparties and brokers are dependent on their due performance of their obligations. The insolvency or default of such counterparties and brokers may lead to positions being liquidated or closed out without your consent.

Commission and other charges

Your net returns from a transaction would also be affected by the transaction costs (i.e. commission, fees and other charges) charged by your broker, the clearing house and the securities exchange. These costs must be considered in any risk assessment made by you.

Custodial services

You acknowledge that there may be risks in leaving securities and assets in your broker's safekeeping. Such risks could involve the loss of all your securities and assets, leading to diminished investor protection. You should be prepared to assume these risks if you decide to leave your securities and assets in your broker's safekeeping. You should also understand that in relation to securities and assets held in other jurisdictions, your broker may appoint foreign custodians to safekeep your foreign securities and assets. In this respect, there may be additional risks in relation to such foreign custodians arising from the operation of foreign law, rules and regulations. You should therefore be prepared to assume these further risks before you engage your broker to provide such foreign custodial services. You should also be aware that you may incur additional costs for utilising custodial services.

While every attempt will be made to segregate your securities and your broker's securities held with custodians, there may be instances when some custodians may not recognise such segregation. Consequently, your ability to withdraw these securities may be affected if your broker defaults.

Transactions in foreign jurisdictions

Transactions on markets in other jurisdictions, including markets formally linked to a domestic market, may involve additional risk. In particular, securities that are foreign listed securities and are held outside Singapore are subject to the applicable laws and regulations of the relevant overseas jurisdiction that may be different from the Securities and Futures Act (Cap. 289) and the rules made thereunder in Singapore. Consequently, such securities may not enjoy the same protection as that conferred on securities received or held in Singapore. Before you trade you should enquire about any rules relevant to your particular transactions. The Monetary Authority of Singapore will be unable to compel the enforcement of the rules of foreign regulatory authorities or markets in other jurisdictions where the transactions have been effected. You should understand the types of redress available in both your home jurisdiction and other relevant jurisdictions before you start to trade. There may be restrictions for foreigners, repatriation of capital investments and profits and there may be withholding or additional forms of taxes.

Trading facilities and electronic trading

Most 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 member firms. Such limits may vary. Before you conduct any transactions through such facilities or systems, you should understand the details in this respect. Further, trading on an electronic trading system may differ not only from trading in an open-outcry market but also 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 not executed at all.

Off-exchange transactions

In some jurisdictions and only in restricted circumstances, firms are permitted to effect off-exchange transactions. In addition to the issues concerning the liquidation of positions and pricing relationships generally set out above, off-exchange transactions may be less regulated or subject to a separate regulatory regime. Because prices and characteristics of over-the-counter financial instruments are often individually negotiated, there may be no central source for obtaining prices and there can be inefficiencies in the pricing of such instruments. Off-exchange transactions may also involve greater risk than dealing in exchange traded products because there is no exchange market through which to liquidate your position, to assess the value of the product or the exposure to risk. Bid and offer prices need not be quoted, and even where they are, they will be established by dealers in these products and consequently, it may be difficult to establish what a fair price is. Before you undertake such transactions, you should familiarise yourself with applicable rules and attendant risks.

Terms and conditions

It is important that you fully understand the terms and conditions of any transactions that you propose to undertake, including the contractual specifications of any exchange-traded option or contract, the circumstances under which you may become obliged to make or take delivery of an underlying asset upon settlement of a derivatives transaction, and the commissions, fees and other charges for which you will be liable. You should therefore familiarise yourself with any agreement or confirmation that you may enter into with your broker. You must fully understand your rights and obligations under that agreement or confirmation, and carefully study the trading mechanism and understand the potential risks involved before you trade. You should not sign any agreement or confirmation unless you are familiar with the contents or effects or your professional advisers have explained the contents and effects. In particular, you should be aware that your contract with your broker may not include the provision by your broker of financial advisory or fund management services. In these cases, you should seek independent advice as to whether any recommendation by your broker is suitable for you in view of your specific investment objectives, financial situation and particular needs.

Section B - Transactions involving special risks

Unit Trusts

Before investing in any unit trust, you are advised to read and understand the contents of the prospectus or any information memorandum. The prospectus or information memorandum may, but need not always contain, a statement of the risks specific to a particular unit trust. You should carefully assess the nature, characteristics and mandate of a unit trust and, amongst other things, consider the fees and charges involved. You should be aware that an investment in unit trusts is subject to various risks such as those highlighted in Section A of this document and there can be no assurance that a unit trust's investment objectives will be realised. In particular, the price of units in a unit trust is subject to both upwards and downwards movements. In this respect, the past performance of a unit trust should not be taken as an indication of its future performance. You should also understand that the issue, subscription and redemption price of units in respect of any unit trust is usually only indicative and not final and binding.

Options

What are options?

An option is a right granted by a person (the seller or writer) to another (the buyer or holder) to buy (call option) or to sell (put option) a specified amount of an underlying share or other asset at a predefined price (strike price) at or until a certain time (expiration date). The price you pay for this right is called the "premium". American-style options are exercisable on any trading day up until the expiration date. European-style options may only be exercised on their expiration date. This does not however limit their tradability on the secondary market.
The following can underlie an option:

- Assets such as equities, bonds
- Benchmarks such as interest rates and indices
- Derivatives or
- Any combination of the above.

During the life of an option, the writer must often provide margin. The margin is determined by the counterparty or, in the case of exchange traded options, the exchange may determine the required margin. If the deposited margin proves insufficient, the writer may have to provide additional collateral or be faced with his position being closed-out. Certain exchanges in some jurisdictions permit deferred payment of the option premium, limiting the liability of the buyer to margin payments not exceeding the amount of the premium. The buyer is still subject to the risk of losing the premium and transaction costs. When the option is exercised or expires, the buyer is responsible for any unpaid premium outstanding at that time.

A call option is in-the-money if the current market value of the underlying is higher than the strike price. A put option is in-the-money if the current market value of the underlying is lower than the strike price. An option which is in-the-money is said to have an intrinsic value. A call option is out-of-the-money if the current market value of the underlying is lower than the strike price. A put option is out-of-the-money if the current market value of the underlying is higher than the strike price, meaning it has no intrinsic value, If the current market value of the underlying is equal to its strike price, the option is at-the-money.

The price of an option depends on its intrinsic value and on its time value. The latter depends on a variety of factors, including the remaining life of the option and the volatility of the underlying asset. The time value of an option reflects the chance that it will be in-the-money. Generally, the value of a call option decreases, and the value of a put option increases, as the value of the underlying asset falls. The less an option is in-the-money, the larger the decrease in value. This decrease also generally accelerates as the life of the option expires, and is proportionally larger than the decrease in value of the underlying asset. However, in certain cases, the value of an option may decrease even if the value of the underlying asset remains unchanged or moves in favour of the buyer.

Risks of options trading

Transactions in options carry a higher degree of risk. Buyers and sellers of options should familiarise themselves with the type of options (i.e. put or call) which they contemplate trading and the associated risks. You should calculate the extent to which the value of the options would have to increase for your position to become profitable, taking into account the premium paid and all transaction costs. You should also inform yourself of the exercise and expiration procedures and your rights and obligations upon exercise or expiry.

The buyer of options may offset its position by trading in the market or exercise the options or allow the options to expire. A person who purchases an option should be aware that in order to realise any value from the option, it will be necessary either to offset the option position or to exercise the option. The buyer of an option should be aware that some option contracts may provide only a limited period of time for exercise of the option (e.g. an American-style option), and some option contracts may provide for the exercise of the option on a specified or stipulated date (e.g. a European-style option). The exercise of an option results either in a cash settlement or in the buyer acquiring or delivering the underlying interest. If the option is on a futures contract, the buyer will have to acquire a futures position, with associated liabilities for margin. If the purchased options expire worthless, you will suffer a total loss of your investment which will consist of the option premium paid plus transaction costs. If you are contemplating buying deep-out-of-the-money options, you should be aware that, ordinarily, the chance of such options becoming profitable is remote. It may sometimes even be impossible to acquire the necessary underlying asset.

Selling (writing or granting) an option generally entails considerably greater risk than buying options. Although the premium received by the seller is fixed, the seller may sustain a loss well in excess of the amount of the premium received. The seller will be liable to deposit additional margin to maintain the position if the market moves unfavourably. The seller will also be exposed to the risk of the buyer 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 on a futures contract, the seller of a put option will acquire a futures contract, with associated liabilities for margin. If the option is "covered" by the seller holding a corresponding position in the underlying futures contract, or another option, the risk may be reduced. If the option is not covered, the risk of loss can be unlimited.

Additional risks common to options trading

Terms and conditions of contracts: Before you conduct your transactions, you should understand the terms and conditions of the specific option which you are trading and the associated obligations (e.g. the expiration dates and restrictions on the time of 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.

Exotic options: Unlike "plain vanilla" put and call options, exotic options are subject to additional conditions and agreements. Exotic options come in the form of tailor-made over-the-counter options or as warrants (see section on warrants below). Given the special composition of exotic options, their price movements can vary markedly from those of their "plain vanilla" cousins. You must also be aware that larger transactions can trigger price movements even shortly before expiration and that these can render an option worthless. There is no limit to the structures exotic options may take. We cannot go into detail here about the risks involved in any particular case. Before buying any exotic options, be sure to seek comprehensive advice about the particular risks involved.

Warrants

What are warrants?

A warrant is a right to subscribe for shares, debentures or other securities, and is exercisable against the original issuer of the securities. As in the case of options, warrants often involve a high degree of gearing, so that a relatively small movement in the price of the underlying security results in a disproportionately large movement in the price of the warrant. The prices of warrants can therefore be very volatile and may fall in value as rapidly as it may rise due to, including but not limited to, variations in the frequency and magnitude of the changes in the price of the underlying security, the time remaining to expiry and the creditworthiness of the issuer.

A "covered warrant' refers to a right to acquire shares or other securities which is exercisable against someone other than the original issuer of the securities.

Risks of trading in warrants

As in the case of options, the buyer of a warrant is subject to the risk of losing the premium and transaction costs. Investments in warrants involve substantial risks including market risk, liquidity risk and the risk that the issuer will be unable to satisfy its obligations under the warrants. You should not buy a warrant unless you are prepared to sustain a total loss of the money you have invested plus the commission or other transaction costs.

An investment in warrants involves valuation risks in relation to the underlying asset, which may vary over time and may increase or decrease by reference to various factors, which may include corporate actions (where the underlying asset is a share or a basket of shares), changes in computation or composition (where the underlying asset is an index), macro economic factors and market trends. Although the issuer may be required or permitted to adjust or amend the conditions of the warrants under certain circumstances, if an event occurs which does not require the issuer to make such adjustments, the price of the warrants and the return upon the exercise of the warrants may be affected.

In the case of exchange-traded warrants, it is not possible to predict the price at which the warrants will trade in the secondary market or whether such market will be liquid or illiquid. To the extent that warrants of a particular issue are exercised, the number of warrants of such issue outstanding will decrease, resulting in a diminished liquidity for the remaining warrants of such issue. A decrease in the liquidity of an issue of warrants may in turn cause an increase in the volatility associated with the price of such issue of warrants. To the extent that an issue of warrants becomes illiquid, the buyer may have to exercise such warrant to realise value. In respect of European-style warrants, as they are only exercisable on the expiration date, you will not be able to exercise your warrants to realise value in the event that the relevant issue becomes illiquid.

Forwards and futures

What are forwards and futures?

Forwards and futures entail the obligation to deliver or take delivery on a specified expiration date of a defined quantity of an underlying at a price agreed on the contract date. Forwards and futures can involve special risks and are therefore only suitable for investors who are familiar with this type of instrument, have sufficient liquid assets and are able to absorb any losses that may arise.
Futures are traded on an exchange. They take the form of contracts in which the quantity of the underlying and the expiration date are standardised. Forwards are not traded on an exchange; hence they are referred to as OTC (over-the-counter) forwards. Their specifications may also be standardised; otherwise they may be agreed between the buyer and the seller. Underlyings for forwards and futures include assets such as equities, bonds and benchmarks such as interest rates and indices.

Risks of trading in forwards and futures

Margin requirements: On buying or (short) selling an underlying asset on the futures market, you must supply a specified initial margin on agreement of the contract. This is usually a percentage of the total value of the contracted instruments. In addition, a variation margin is calculated periodically during the life of the contract. This corresponds to the book profit or loss arising from any change in value in the contract or underlying instrument. In the event of a book loss, the variation margin can be several times as large as the initial margin. The terms for calculating the variation margin are laid down in the applicable exchange regulations or contract provisions. You will be obliged to deposit the required initial or variation margin cover with your broker for the entire life of the contract.

Forward sales and purchases: For forward sales, the underlying must be delivered at the price originally agreed even if its market value has since risen above the agreed price. In such a case, you risk losing the difference between these two amounts. Theoretically, there is no limit to how far the market value of the underlying can rise. Hence, potential losses are similarly unlimited and can substantially exceed the margin requirements. For forward purchases, you must take delivery of the underlying at the price originally agreed even if its market value has since fallen below the agreed price. Your potential loss corresponds to the difference between these two values. Your maximum loss corresponds to the originally agreed price. Potential losses can substantially exceed the margin requirements. In order to limit price fluctuations, an exchange may set price limits for certain contracts. Find out what price limits are in place before effecting forward or futures transactions. This is important since closing out a contract can otherwise be much more difficult or even impossible. If you sell forward an underlying which you do not hold at the outset of the contract, this is referred to as a short sale. In this case, you risk having to acquire the underlying at an unfavourable market price in order to fulfil your obligation to effect delivery on the contract's expiration date.

OTC forwards: There is no actual market for OTC forwards agreed individually, and hence such positions may only be closed out with the agreement of the counterparty.

Combinations: Since combinations comprise various elements, the closing out of individual elements can considerably alter the risks inherent in the overall position. Before entering into any such transaction, be sure to consult your broker about the particular risks involved. Given the many possible combinations, it is impossible to go into detail in this document the risks involved in any particular case.

Contracts for differences

Certain futures, forward or option contracts are contracts for differences which provide for adjustment between the parties based on the respective values or levels of certain assets or reference indices at the time of the contracts and at an agreed future time. These can be options as well as securities, etc. There is no delivery on these contracts which can only be settled in cash. Further, the underlying currency of these contracts may not have a ready market. Consequently, these contracts may be very illiquid and in such event, you may sustain substantial losses as the bid/offer spreads may be very wide if the market moves against your position. Essentially, contracts for differences carry the same risks as investing in a futures contract, forward or an option and you should be aware of these as set out above. Transactions in contracts for differences may also have margin requirements and you should be aware of the implications of this as set out above.

Structured Products

What are structured products?

Structured products are combinations of two or more financial instruments. At least one of them will typically be a derivative. Together, they form a new investment product. Structured products can be traded either on-exchange or over-the-counter. Every structured product has its own risk profile since the risks of their individual components may be reduced, eliminated or increased. Hence it is particularly important that you are fully aware of the risks involved before acquiring any such product. Such information can be found in the relevant product literature or the contractual terms for the product.

What are structured products with capital protection?

Structured products with capital protection consist of two elements: a fixed-income investment (especially a bond or a money market investment) and an option. This combination enables the holder to participate in the price movements of one or more underlying assets (via the option or participation component) while at the same time limiting potential losses (via the bond or capital protection component). The capital protection component may only cover a portion of the capital invested and can be well under 100% of the capital invested, depending on the product. Capital protection therefore does not mean 100% repayment of the purchase price for all products. The option component usually comprises one option or a combination of options. The risks this component entails therefore correspond to those of the corresponding option or option combination. Depending on the underlying's market value, it can expire without value. The participation and protection elements can be separated, depending on the product in question. This allows you to retain or dispose of each individual component separately.

Risks of structured products

Every structured product has its own risk profile resulting from the interaction of its component risks. Since there is almost limitless potential to combine product elements, we cannot go into detail here about the risks involved in any particular case. Before effecting any such transaction, be sure that you are fully aware of the risks involved. Such information can be found, for example, in the relevant product literature.

<u>Issuer's credit risk and liquidity risk</u>: With structured products, buyers can only assert their rights against the issuer. Hence, alongside the market risk, particular attention needs to be paid to issuer risk. You therefore need to be aware that, as well as any potential loss you may incur due to a fall in the market value of the underlying, a total loss of your investment is possible if the issuer should default. You should also note that while market makers, who in most cases are the issuers themselves, normally guarantee that structured products are tradable, liquidity risks cannot be excluded.

<u>Risks arising from equity linked notes and other structured securities</u>: Certain notes and securities may be linked to the performance of equities, or other underlying references. You should study the terms of such products carefully and understand the risks involved. Such instruments may not be capital guaranteed and you may sustain a total or partial loss of your investment. Moreover, the share purchase mechanism embedded in equity linked notes could result in the holder being required to take delivery of the underlying reference shares at maturity instead of a cash amount. In relation to structured notes (“Notes”) where the returns on the Notes are linked directly or indirectly (such as via options) to changes in the market of the underlying instrument, you will be exposed to price volatility in the market. You should therefore make your own assessment of the relevant market concerned. You should note that the underlying instrument may be traded in different jurisdiction and on different markets. The market on which the Notes may be traded may be different from the market on which the underlying instrument is traded. Accordingly, the nature of the risks a holder of the Notes is subject to may be very complex.

The Notes may provide that the issuer may discharge its obligations by delivery of the underlying instrument to you on the maturity of the Notes. If the underlying instrument is a basket of shares, these shares which are delivered to you may be traded in a foreign stock market. You should be aware of the implications in relation to this method of settlement; in particular, you may have to open and maintain accounts with a custodian for the purpose of settlement, and pay related costs and expenses in relation to the settlement. By holding the shares or the basket of shares, you may also be subject to the regulatory and disclosure requirements of the jurisdictions in which the issuer of each of the shares is incorporated or carries on business and the shares are traded. There may also be restrictions relating to the trading of the shares and holding of the shares and you are strongly advised to seek independent advice on these issues. You should also note that once you receive shares traded in a foreign jurisdiction, you will be subject to all risks relating to making an investment in shares in that jurisdiction. Accordingly, you have to be aware of risks such as exchange control risks, currency risks, transactional risks which include suspension of trading, extreme market conditions, failure of telecommunications or electronic systems, and events commonly known as "force majeure".

You are subject to exchange rate risks as the Notes may not be denominated in the same currency as the currency in which the underlying instrument is traded and settled. As the underlying instrument may be traded in different jurisdictions, the currency in which the reference under-lying instrument for the Notes is traded may differ from the currency in which the same underlying instrument is traded in a different jurisdiction. Therefore, your returns on the Notes depend not only on the value of the underlying instrument but on the exchange rate between, the two currencies on the maturity of the Notes. If settlement is effected by the delivery of the underlying instrument, your returns in the form of proceeds from the sale of the underlying instrument may be in a currency different from the currency in which the Notes are denominated.

If the underlying instrument is a stock, you should note that the value of the underlying instrument may change if the method of calculating the index is changed notwithstanding that the market for the underlying component stocks remains unchanged.

Although the Notes may be listed on a stock exchange, there may not be a secondary market for the Notes. Accordingly you may not be able to find a purchaser for the Notes should you wish to dispose of the Notes and the Notes may not have any market value. You should expect that you are required to hold the Notes until its maturity.

You should also note that the tax implications of the Notes may be different from the underlying instrument.

Synthetic products

What are synthetic products?

Synthetic products are essentially covered options and certificates and are characterised by their identical or similar profit and loss structures when compared with specific traditional financial instruments such as equities or bonds, Basket certificates are on example. These are based on a specified number of selected stocks.

Synthetic products can be traded either on-exchange or over-the-counter. Note that the risks associated with synthetic products need not be the same as the risks associated with the financial instruments they contain, Hence, it is particularly important that you are fully aware of the risks involved before acquiring any such product. Such information can be found, for example, in the relevant product literature. Two examples of synthetic products are synthetic covered options and certificates.

What is synthetic covered option?

A covered option involves the purchase of an underlying asset (equity, bond) and the writing of a call option on that same asset. In return, you are paid a premium, which limits your loss in the event of a fall in the market value of the underlying asset. By the same token, however, your potential return from any increased in the asset's market value is limited to gains up to the option's strike price. Traditional covered options require that the underlying asset be lodged as collateral.

Synthetic covered options are based on the idea of duplicating traditional covered options. This can only be achieved by means of a transaction. Both the purchase of the underlying asset and the writing of the call option are carried out synthetically using derivatives. The purchase price of such a product is identical to that of the underlying, less the premium received for the sale of the call option. Hence, the synthetic product is sold more cheaply than its underlying.

Risks associated with synthetic covered options

Unlike structured products with capital protection, synthetic covered options do not contain a hedge against losses in the market value of the underlying. However, by writing a call option (traditional covered option) or by calculating the return from the sale of a call option into the product price (synthetic covered option), any loss in market value of the underlying is lower than it would be in the case of a direct investment. The option premium thereby limits any loss in market value of the underlying.

Either cash settlement or physical delivery of the underlying takes place on the expiration date: if the market value of the underlying on expiration is higher than the strike price, you are paid a specified cash amount as settlement, If however, it is lower than the strike price, you receive physical delivery of the underlying asset. In this case, you carry the full risk associated with the underlying.

What are certificates?

A certificate accords a right that is either based on several underlyings or has a value derived from several indicators. This allows you, even for a low capital investment, to achieve diversification over a broad range of investment opportunities or risk factors and so reduce the level of your risk. The main types of certificates are:

* Index certificates. These reflect a whole market, being based on an official index (e.g. Straits Times Index or STI).
* Region certificates. These are derived from a series of indices or companies from a certain region (e.g. Eastern Europe, Pacific, etc.).
* Basket certificates. These are derived from a selection of national or international companies active in a certain sector (e.g. biotechnology, telecoms, mechanical engineering), indices, bonds or other underlyings.

Certificates are securitised and have a limited duration. Redemption occurs on expiration and equals:

* A set amount per index point for an index certificate.
* The difference between the market value on expiration and the strike price for a region or basket certificate.

Risk associated with certificates

Investments in index, region or basket certificates basically involve the same level of potential loss as a direct investment in the corresponding equities themselves. Compared with a direct investment, certificates offer greater risk diversification. However, this does not mean the risk is eliminated - it may simply be transposed onto the market and sector risks. In contrast to a direct investment in equities, certificates do not confer any voting rights nor do they entitle the holder to a dividend payment. Certificates also carry an issuer risk i.e. the credit risk associated with the issuing bank.

Section C - Additional information

Investments in non-traditional funds (hedge funds and offshore funds)

What are non-traditional funds?

Non-traditional funds are funds or investment companies that differ from traditional equity and bond investments on account of their investment style. The most common form of non-traditional fund is the hedge fund, which - in spite of its name - does not necessarily have anything to do with hedging. Many hedge funds aim to make a profit and sometimes take on very high levels of risk. Hedge funds include all types of investment funds, investment companies and partnerships that use derivatives for investment rather than hedging purposes,that can carry out short sales or that can attain significant leverages from the investment of borrowed capital. Additional features of hedge funds are their free choice of investment categories, markets (including emerging markets) and trading methods. Hedge funds generally demand high minimum investments. They offer no more than limited subscription and redemption rights with lengthy notice periods. Portfolio managers of hedge funds receive performance-linked bonuses and often have a personal stake in the fund.

What risks do you need to be aware of?

Non-traditional investments can take countless different forms. Hence we cannot go into detail here about the risks involved in any particular case. Before making any such investments, be sure to seek comprehensive advice about the particular risks involved and to study carefully any offers.

Investment strategies are often high-risk. Due to leverage, a small movement in the market can lead to a major gain, but any losses will also be magnified sharply. The entire amount of your investment can, under certain circumstances, be lost.

It is not uncommon for there to be little information available concerning a non-traditional investment. Moreover, many investment strategies are highly complex and very difficult to understand. Changes in strategy that can lead to a substantial increase in the level of risk are often virtually overlooked, accorded too little attention or noticed too late.

The liquidity and tradability of non-traditional investments can vary a great deal. Hedge fund issues and redemptions are often only monthly, quarterly or annually. Fixed holding periods lasting many years are not unusual. Provisions regarding trading frequency and holding periods may change frequently and rapidly. Liquidations can stretch over many years.

What are offshore funds?

Many funds in this category have an offshore domicile which earns them the name offshore funds. They are subject to less stringent legislation and supervision, which in turn offers poorer investor protection. Problems or delays may also arise in the settlement of buy and sell orders for units in such funds. There is no guarantee that an investor's legal rights will be enforceable.

Investments In emerging markets

What are the emerging markets?

Emerging markets are the markets for securities trading in countries that possess one or more of the following characteristics:

* A certain degree of political instability
* Relatively unpredictable financial markets and economic growth patterns
* A financial market that is still at the development stage
* A weak economy

According to the Organisation for Economic Co-operation and Development (OECD) criteria, the emerging markets are all countries except: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the UK and the US. These countries' markets are described as the established markets.

Risks to be borne in mind

There are risks linked to investments in emerging markets that are not encountered in their more established counterparts. This is also the case when the issuer or provider of a product has its headquarters or primary focus of activity in an emerging nation. Such risks include (without limitation) sovereign risk, issuer risk, price risk and liquidity risk. Investing in the products of such issuers or providers is therefore often speculative.
Although investments in emerging markets related instruments can yield high gains, they can also be highly risky as the markets are unpredictable and there may be inadequate regulation and safeguards available to investors. Before investing in emerging markets, you should form an impression of them that allows you to assess the risks involved.