



恒生銀行  
HANG SENG BANK

## Hang Seng Bank Limited

*(incorporated in Hong Kong with limited liability, a licensed bank regulated by the Hong Kong Monetary Authority and registered under the Securities and Futures Ordinance of Hong Kong for types 1, 4, 7 and 9 regulated activities)*

**(“Bank”)**

*as Offeror and Product Arranger*

## Hang Seng Non-Capital Protected Unlisted Gold Linked Deposits (“Hang Seng GLDs”)

**You are warned that the value of Hang Seng GLDs may fluctuate and you may sustain a total loss of your investment. You should therefore ensure that you understand the nature of Hang Seng GLDs and carefully study the risk factors set out in this document and other documents comprising the offering documents for Hang Seng GLDs and, where necessary, seek independent professional advice, before you decide whether to invest in Hang Seng GLDs.**

**Hang Seng GLDs constitute general unsecured and unsubordinated contractual obligations of the Bank and of no other person. If you invest in Hang Seng GLDs, you are relying upon the creditworthiness of Hang Seng Bank Limited and have no rights, ownership and possession of any physical gold under the terms and conditions of Hang Seng GLDs.**

The Securities and Futures Commission (“SFC”) has authorised Hang Seng GLDs under Section 104A(1) of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) (“SFO”) and the issue of this document and the term sheet based on the standard format set out in Appendix B to this document as part of the offering documents for Hang Seng GLDs under Section 105(1) of the SFO. The SFC takes no responsibility for Hang Seng GLDs or the contents of this document, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document. The SFC’s authorisation does not imply its endorsement or recommendation of Hang Seng GLDs referred to in this document nor does it imply that the SFC guarantees the commercial merits of Hang Seng GLDs or their performance. The SFC’s authorisation does not mean Hang Seng GLDs are suitable for all investors nor is it an endorsement of their suitability for any particular investor or class of investors. Interested persons should consider obtaining independent professional advice before deciding whether to invest in Hang Seng GLDs.

## IMPORTANT

*If you are in any doubt about any of the contents of this principal brochure, you should obtain independent professional advice.*

The offering documents for Hang Seng GLDs (as further described on page 42 of this principal brochure) include particulars given in compliance with the Code on Unlisted Structured Investment Products issued by the SFC (the “**Code**”) for the purpose of giving information with regard to Hang Seng Bank Limited (as the Offeror and Product Arranger) and Hang Seng GLDs. Hang Seng Bank Limited (as the Offeror and Product Arranger) accepts full responsibility for the contents of, and the completeness and accuracy of the information contained in Hang Seng GLDs offering documents and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there is no untrue or misleading statement, or other facts the omission of which would make any statement therein untrue or misleading. Hang Seng Bank Limited (as the Offeror and Product Arranger) also confirms that it meets the eligibility requirements applicable to issuers and product arrangers under the Code respectively and Hang Seng GLDs comply with the Code.

References to “Bank”, “we” or “us” in this Principal Brochure mean Hang Seng Bank Limited (in its capacity as the Offeror), unless otherwise specified.

This principal brochure has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is not intended to provide and should not be relied upon for tax, legal or accounting advice.

**Post-sale cooling-off period and market making arrangement pursuant to Parts III and IV of the Code do not apply to Hang Seng GLDs as Hang Seng GLDs will not be offered with an investment period of over 6 months.**

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**KEY FACTS STATEMENT (A)**  
**Hang Seng Non-Capital Protected Unlisted Gold Linked Deposits (“Hang Seng GLDs”)**  
**(with Cash as the Initial Investment)**  
offered by  
**Hang Seng Bank Limited**

**This is an unlisted structured product embedded with derivatives.**

**This statement provides you with key information about one variation of Hang Seng GLDs: Hang Seng GLDs (with Cash as the Initial Investment). This statement is a part of the offering documents. You should not invest in Hang Seng GLDs based on this statement alone.**

**WHAT IS THIS PRODUCT?**

Hang Seng GLDs (with Cash as the Initial Investment) are unlisted non-capital protected structured products which have an embedded put option over Loco London Gold as the reference asset against the specified currency. This product does not provide for delivery of any physical gold at maturity but provides for settlement in paper gold as the maturity receivable in certain circumstances.

On the start date, you pay to us a cash amount in the specified currency as the initial investment to acquire this product. Your potential gain/loss under this product depends on the final fixing price of Loco London Gold in comparison with the pre-determined strike price.

At maturity of this product, you will receive the maturity receivable in either of the following forms:

- (i) If the final fixing price is **at or above** the strike price, you will receive a cash amount in the specified currency equal to the sum of your initial investment and the distribution amount in cash. You will make a gain in this case which is limited to the distribution amount; or
- (ii) If the final fixing price is **below** the strike price, you will receive a particular quantity of paper gold (corresponding to the relevant quantity of gold you are obliged to buy at the strike price). You will suffer a loss or substantial loss if the prevailing value of such particular quantity of paper gold at maturity is less or substantially less than your initial investment.

See “What are the Key Features of this Product?” below for further information on how this product works.

**WHAT ARE THE KEY RISKS?**

**Investment involves risks. Please refer to the “Risk Factors” section in this principal brochure for details.**

- **Not capital protected** — Hang Seng GLDs are not capital protected: you could lose all of your investment.
- **No collateral** — Hang Seng GLDs are not collateralised and are not secured on any of our assets.
- **Unlisted structured products and NOT protected deposits**— Hang Seng GLDs are unlisted structured products embedded with derivatives and are not equivalent to nor should they be treated as substitutes for conventional time deposits. They are NOT protected deposits for the purposes of the Deposit Protection Scheme in Hong Kong.
- **Limited maximum potential gain** — The maximum potential gain is limited to a predetermined cash amount in the specified currency equal to the distribution amount.
- **Liquidity risk**— Hang Seng GLDs are designed to be held till maturity. There will be no market making arrangements for Hang Seng GLDs, and you cannot transfer or early terminate your Hang Seng GLD without our consent.

- **Counterparty risk** — Hang Seng GLDs constitute general unsecured and unsubordinated contractual obligations of Hang Seng Bank Limited as the Offeror. When you invest in Hang Seng GLDs, you will be relying on the creditworthiness of Hang Seng Bank Limited and of no other person. If Hang Seng Bank Limited (in its capacity as the Offeror) becomes insolvent or defaults on its obligations under Hang Seng GLDs, in the worst case scenario, you could lose all of your initial investment.
- **Not the same as investing in gold** — Investing in Hang Seng GLDs is not the same as investing in gold. You do not own any gold by investing in Hang Seng GLDs. Changes in the gold price may not lead to a corresponding change in your potential gain/loss under Hang Seng GLDs.
- **No physical delivery of gold** — The maturity receivable under Hang Seng GLDs will depend on the final fixing price of gold. In the case **where the final fixing price is below the strike price**, we will not deliver any physical gold to you as the maturity receivable. Instead, **the maturity receivable will be settled in the form of paper gold** which will be credited to your paper gold grain account maintained with us on the maturity date. In such case:
  - (a) **No rights in gold** — The allocation of paper gold in your paper gold grain account is notional and is for the sole purpose of determining the cash value of your investment in such account. You do not have any rights, ownership and possession of any physical gold in such account.
  - (b) **Paper gold units are traded in paper gold price in HKD only which may be worse than the prevailing USD gold price** — The paper gold units credited to your paper gold grain account are traded in the paper gold price quoted by us in HKD only but not the prevailing gold price customarily quoted in USD in the international bullion market. If the maturity receivable is determined to be a particular quantity of paper gold, you will be exposed to movement in HKD paper gold prices (rather than USD gold prices) from and after the final fixing date. Such HKD paper gold prices may be adversely affected by (i) a change in the prevailing exchange rate between USD and HKD and/or the prevailing USD gold price and (ii) our profit margins incorporated therein. Accordingly, changes in the USD gold prices may not necessarily lead to any corresponding change in the HKD paper gold prices, and such HKD paper gold prices may be worse than the HKD equivalent of the prevailing USD gold price for the corresponding quantity of gold.
  - (c) **Paper gold is an investment product involving credit and liquidity risks**— Paper gold is an investment product offered by us which involves risks such as the risk of relying on the creditworthiness of Hang Seng Bank Limited in holding and trading paper gold through your paper gold grain account and the risk of lack of liquidity as you can only trade paper gold with us.
- **Exposure to risks from the time you place an order**— Once you place an order with us, you will be committed to invest in the Hang Seng GLD. You will be exposed to the risks associated with the Hang Seng GLD starting from the time you place an order.
- **What you receive at maturity is subject to volatility of USD gold price**— What you receive under your Hang Seng GLD at maturity will depend on the final fixing price in comparison with the strike price. The final fixing price will be affected by the prevailing USD gold price on the final fixing date. The prevailing USD gold price may go down as well as up since it is affected by a variety of factors that are unpredictable.
- **What you receive at maturity may also be subject to exchange rate risk**— If you do not choose USD as the specified currency, in addition to the prevailing USD gold price on the final fixing date, the final fixing price will also be affected by the prevailing exchange rate between USD and the specified currency. Accordingly, even if the prevailing USD gold price remains stable, a change in the prevailing exchange rate between USD and the specified currency could cause the final fixing price to move against you and result in the exercise of the put option over gold against the specified currency which may lead to a loss under your Hang Seng GLD.
- **Not covered by Investor Compensation Fund**— Hang Seng GLDs are not listed on any stock exchange and are not covered by the Investor Compensation Fund in Hong Kong.
- **Conflicts of interest**— You should note that conflicts of interest may arise from the different roles played by us and our subsidiaries and affiliates in connection with Hang Seng GLDs and your paper gold grain account maintained with us and our economic interests in each role may be adverse to your interests in Hang Seng GLDs or your paper gold grain account.

- **Additional risks for Hang Seng GLDs with RMB as specified currency —**

- (i) **Limited pool of RMB outside the PRC** —RMB is subject to foreign exchange control by the PRC central government. There is currently a limited pool of RMB outside the PRC and any tightening of foreign exchange control may adversely affect the liquidity of offshore RMB, and the value and/or potential gain or loss of such Hang Seng GLDs.
- (ii) **Offshore RMB exchange rate and interest rate risks** — The final fixing price will be affected by offshore RMB exchange rate. You should note that the offshore RMB exchange rate may deviate significantly from the onshore RMB exchange rate. Changes in the offshore RMB exchange rate could cause the final fixing price to move against you and result in the exercise of the put option over gold against the specified currency which may lead to a loss under your Hang Seng GLD. In addition, interest rates for onshore RMB are controlled by the PRC central government. Any further liberalisation of interest rate for onshore RMB may influence the interest rate for offshore RMB which may adversely affect the value and/or potential gain or loss of such Hang Seng GLD.
- (iii) **Payment postponement for RMB disruption event** — If an RMB disruption event occurs on a scheduled date of payment, payments will be postponed and may be made in a HKD equivalent amount. We will not pay any extra amount for such postponed payment. You may also suffer a loss in HKD terms if RMB depreciates against HKD following the occurrence of an RMB disruption event.

## **WHAT ARE THE KEY FEATURES OF THIS PRODUCT?**

- **How Does this Product Work?**

- (a) **Initial Investment:** You pay to us a cash amount in the specified currency (which is subject to the minimum initial investment as specified in the term sheet) as the initial investment to acquire investment exposure to gold as the reference asset under this product.
- (b) **Reference Asset of this Product:** The reference asset under this product is Loco London Gold (which must have a fineness of not less than 99.5%) as specified by the London Bullion Market Association or its successor (“**gold**”). Each unit of gold (“**gold unit**”) is denominated in 1 troy ounce of gold.
- (c) **Paper Gold:** This product provides for settlement in paper gold as the maturity receivable if the final fixing price of gold is below the strike price. “**Paper gold**” means a notional amount of gold credited to your paper gold grain account maintained with us, the offering of which is authorised by the SFC under Part IV of the SFO. Please refer to the latest paper gold offering documents for further details. Each unit of paper gold (“**paper gold unit**”) is denominated in 0.1 gold unit (i.e. 0.1 troy ounce of gold). Although the maturity receivable under this product will depend on the final fixing price of gold, if the maturity receivable is determined to be a particular quantity of paper gold, the paper gold units credited to you as the maturity receivable are traded in paper gold prices only. Accordingly, your realised gain/loss will depend on the paper gold price at which you sell such paper gold units. **You may only sell or buy paper gold units at such HKD prices as quoted by us.**
- (d) **Specified Currency, Strike Price and Final Fixing Price:** You may choose Renminbi (“**RMB**”) or any major currencies which are non-restricted and freely convertible such as Hong Kong dollars (“**HKD**”) as specified in the term sheet as the specified currency under this product. The specified currency will be specified in the term sheet. It is the currency in which any cash deposit and payment under this product is made and the strike price and the final fixing price are quoted. The strike price will be used to compare with the final fixing price in determining the maturity receivable on the final fixing date.

The **strike price\*** is quoted on a per gold unit basis in the specified currency which will be expressed in the relevant term sheet as either: (i) a fixed price; or (ii) a range of prices (the upper and lower limits will not exceed the mid-point of such price range by 2.5% in percentage terms). In case (ii), the exact strike price will be determined by us once your Hang Seng GLD order is accepted by us and such exact strike price will fall within such range. In that case, you will not know the exact strike price when you place a Hang Seng GLD order and such exact strike price will be set out in a confirmation to be sent to you within 2 business days after the order date.

The **final fixing price** is the mid-price per gold unit quoted in the specified currency as displayed on the price source (being the Bloomberg page “BFIX”) at the valuation time on the final fixing date. We will publish the final fixing price in our website (currently at [www.hangseng.com/gld\\_goldprices](http://www.hangseng.com/gld_goldprices)) as soon as practicable after such price is displayed on the price source.

(e) **Maturity Receivable:** If on the final fixing date:

- (i) the final fixing price of gold is **at or above** the strike price, the put option over gold against the specified currency will lapse and you will receive a cash amount in the specified currency equal to the sum of the initial investment and the distribution amount as the maturity receivable on the maturity date; or
- (ii) the final fixing price of gold is **below** the strike price, the put option over gold against the specified currency will be exercised by us, and upon exercise of such put option on the final fixing date:
  - (I) you are obliged to use the sum of the initial investment and distribution amount in cash to buy from us a particular quantity of gold (as quoted on a per troy ounce basis) at the strike price, which will then be converted into paper gold units (as quoted on a per 0.1 troy ounce basis) in the form of paper gold corresponding to such quantity of gold at the conversion ratio of 10; and
  - (II) such quantity of paper gold will be credited to you as the maturity receivable on the maturity date.

In case (ii) above, you are not entitled to demand delivery of any physical gold as the maturity receivable.

(f) **Distribution Amount:** The distribution amount is an amount in the specified currency calculated as follows:

initial investment x actual distribution rate

Where:

$$\text{Actual distribution rate} = \text{annualised distribution rate} \times \frac{\text{deposit tenor}}{\text{day count}}$$

The **annualised distribution rate**<sup>\*,^</sup> will be expressed in the relevant term sheet as either: (i) a fixed percentage; or (ii) such percentage to be determined by us once your Hang Seng GLD order is accepted by us which will not be lower than the lowest annualised distribution rate offered by us (“**floor percentage**”) of 1% per annum. In case (ii), you will not know the exact annualised distribution rate when you place a Hang Seng GLD order and such exact annualised distribution rate will be set out in a confirmation to be sent to you within 2 business days after the order date.

The **deposit tenor** is the number of calendar days in the period from (and including) the start date (i.e. the date on which your initial investment will be deducted from your designated account) to (but excluding) the scheduled maturity date as specified in the relevant term sheet.

The **day count** is such number as specified in the relevant term sheet. Please refer to page 36 of this principal brochure for further details.

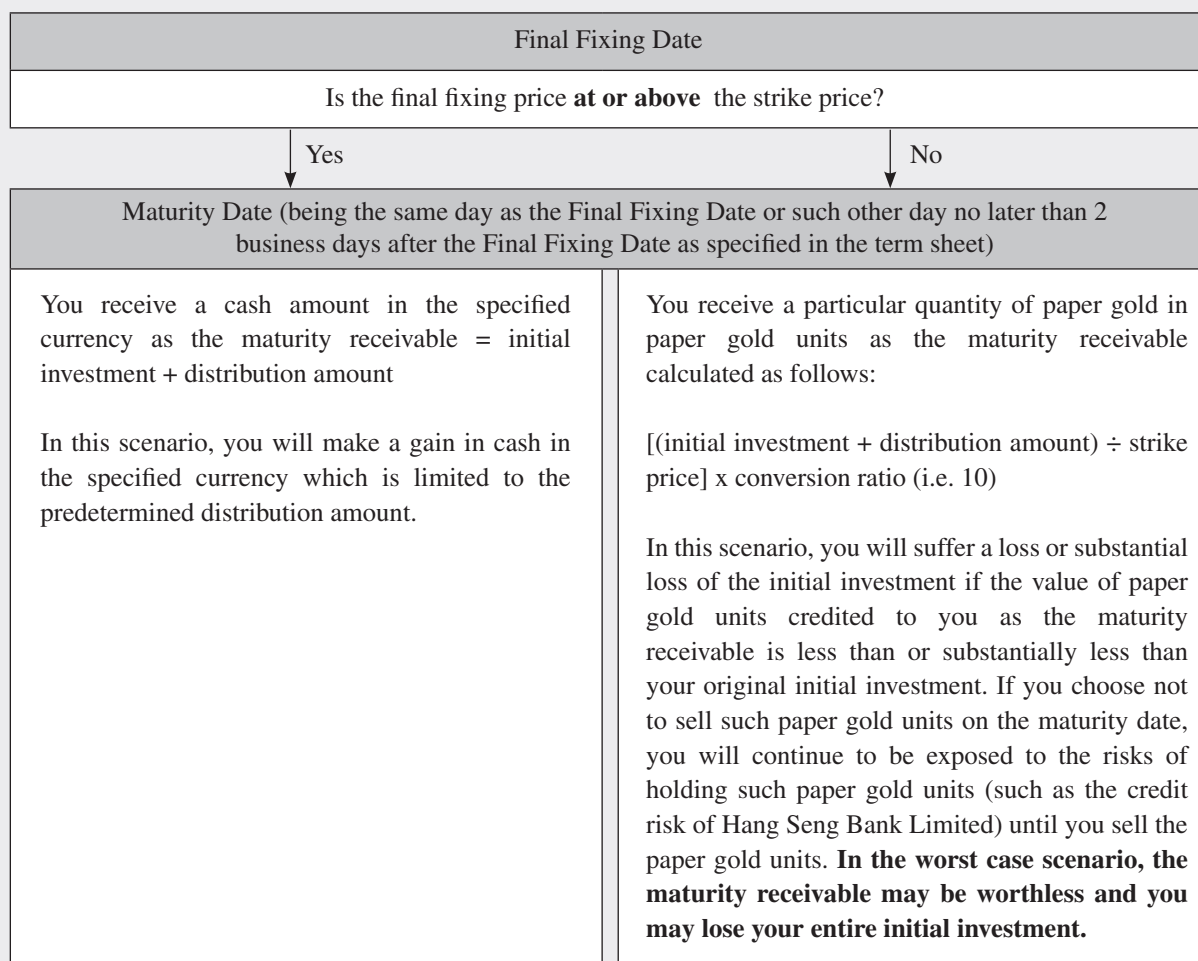
Notes:

\* If the strike price is expressed as a range of prices, the annualised distribution rate will be expressed as a fixed percentage. If the strike price is expressed as a fixed price, the annualised distribution rate will be expressed as such percentage to be determined by us once your Hang Seng GLD order is accepted by us which will not be lower than the floor percentage of 1% per annum.

^ The annualised distribution rate is used to calculate the actual distribution rate and the corresponding distribution amount only. You should not rely on it as an indication of the expected return for this product.



- **Flowchart Illustration of Maturity Receivable:** The chart below illustrates how we determine the maturity receivable under this product:



- **We credit paper gold as maturity receivable as opposed to delivering physical gold:** In the case where the final fixing price is below the strike price, the put option over gold against the specified currency will be exercised under which you will be obliged to buy a particular quantity of gold at the strike price. However, we will not deliver any physical gold to you but will instead credit a particular quantity of paper gold in paper gold units (corresponding to the equivalent weight of the relevant quantity of gold) to your paper gold grain account maintained with us on the maturity date. Please refer to “No physical delivery of gold” under “What are the key risks?” above for the associated risks of receiving paper gold as the maturity receivable. You are not entitled to demand delivery of any physical gold as the maturity receivable.

## HOW CAN YOU APPLY FOR HANG SENG GLDS?

- You must have a paper gold grain account and an integrated account with us (as the intermediary) in order to apply to invest in Hang Seng GLDs.
- You may apply for a Hang Seng GLD by placing an order with us (as the intermediary) on any business day. Once you place an order with us (as the intermediary), you will be committed to invest in the Hang Seng GLD and your initial investment will be frozen from your designated account. As such, please ensure that you have adequate cash amount in your designated account to be used as your initial investment. If your Hang Seng GLD order is accepted by us on such date as you place your order, such date will become the order date. The initial investment will be deducted from your designated account on the start date of the Hang Seng GLD.
- If your order is accepted by us on the order date, a confirmation which sets out all the finalised terms will be sent to you within 2 business days after the order date.

## NO POST-SALE COOLING-OFF PERIOD AND MARKET MAKING ARRANGEMENT

- Post-sale cooling-off period and market making arrangement are not applicable for Hang Seng GLDs as Hang Seng GLDs will not be offered with an investment period of over 6 months.

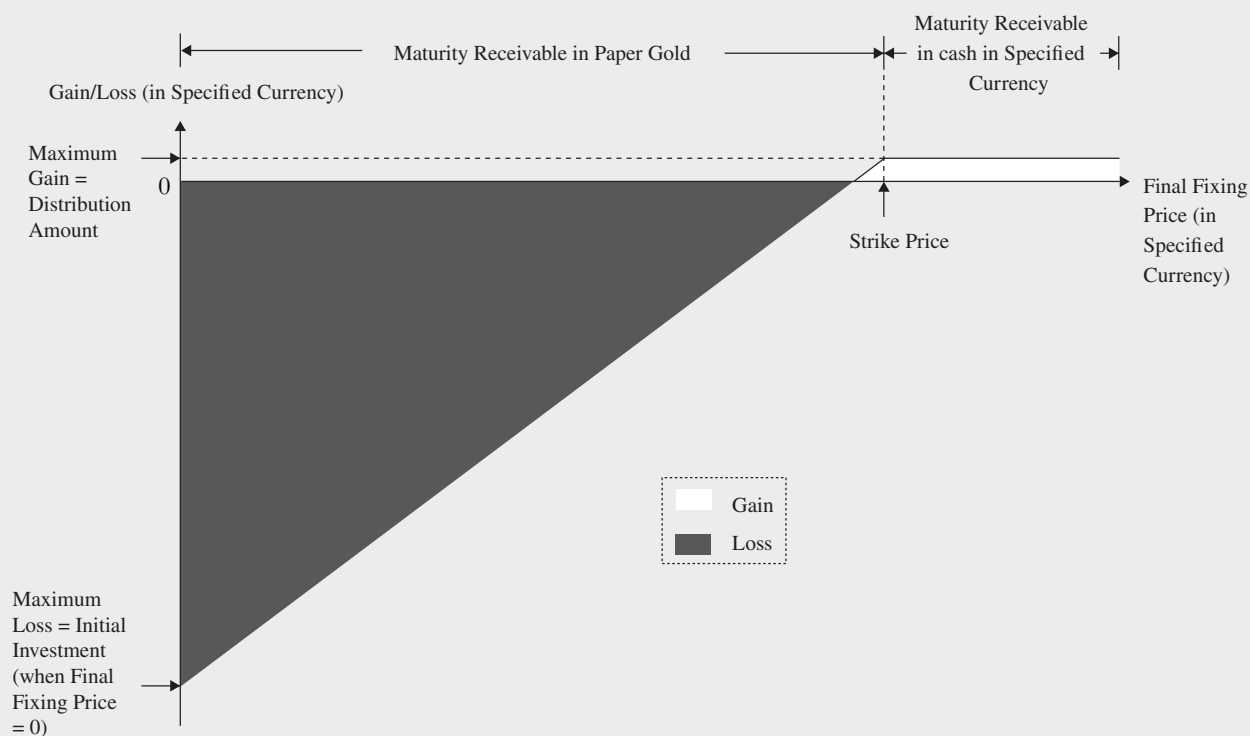
### PAYOFF SCENARIO

The below payoff diagram illustrates the potential gain/loss as measured in the specified currency with different final fixing prices, by comparing:

- in the case where the final fixing price is **at or above** the strike price, the initial investment in cash in the specified currency against the maturity receivable in cash in the specified currency; and
- in the case where the final fixing price is **below** the strike price, the initial investment in cash in the specified currency against the value of the maturity receivable in paper gold as of the final fixing date as measured in the specified currency<sup>+</sup>.

<sup>+</sup> For the purpose of simple illustration of the potential gain/loss, we have assumed that (i) the exchange rate between HKD and the specified currency remains unchanged between the order date and the final fixing date; and (ii) the value of the maturity receivable in paper gold as of the final fixing date is equal to the value of the corresponding quantity of gold as of the final fixing date by reference to the final fixing price, which in both cases are quoted in the specified currency. In real life situation, your realised gain/loss will depend on the paper gold price at which you sell such paper gold units (rather than the gold price).

The **worst case scenario** occurs when the final fixing price drops to zero whereby the maturity receivable is a particular quantity of paper gold with a value of zero as of the final fixing date. In such case, you will suffer a total loss of your investment.



Please also refer to the “Appendix D — Scenario Analysis” in this principal brochure for more illustrative examples of how the Hang Seng GLD (with Cash as the Initial Investment) works.



## WHAT ARE THE FEES AND CHARGES?

- There are no subscription fees, charges or commission for placing a purchase order for a Hang Seng GLD. All related charges incurred by us (including our cost of hedging) will be factored into the determination of the annualised distribution rate and the strike price. For the avoidance of doubt, no settlement expenses are payable to us in connection with the settlement upon maturity.

## MARKET DISRUPTION EVENT AND EARLY TERMINATION OF HANG SENG GLDS

- We shall determine in good faith and in a commercially reasonable manner the final fixing price on the final fixing date upon the occurrence of a market disruption event (such as the failure of the price source to publish the final fixing price) on such date.
- Upon the occurrence of certain termination events (such as change in law, closure of your paper gold grain account, cessation of SFC's authorisation for public offering of paper gold, material change in content of gold or hedging disruption), we shall have the right to early terminate Hang Seng GLDs. In such case, you will receive the early termination amount as determined by us acting in good faith and in a commercially reasonable manner. Such early termination amount might be less or substantially less than the amount that you originally invested.
- In addition, if the specified currency is RMB, payments under such Hang Seng GLDs will be postponed and may be made in a HKD equivalent amount if an RMB disruption event occurs on a scheduled date of payment.
- Please refer to pages 34, 38 and 39 of this principal brochure for details.

## CONTINUING DISCLOSURE OBLIGATIONS

- We (as the Offeror and Product Arranger) will keep the SFC and investors of Hang Seng GLDs informed as soon as reasonably practicable if (a) we (as the Offeror) cease to meet any eligibility requirements applicable to issuers under the Code; (b) we (as the Product Arranger) cease to meet any eligibility requirements applicable to product arrangers under the Code; and (c) to the extent permitted by any applicable law, there are changes in our financial condition or other circumstances which could reasonably be expected to have a material adverse effect on our ability (as the Offeror) to fulfill our commitments in connection with Hang Seng GLDs. Please contact us for further details.

## ADDITIONAL INFORMATION

### Offering Documents

You should obtain the following offering documents from us:

- (i) the relevant term sheet for Hang Seng GLDs;
- (ii) the latest financial disclosure document and any updating addendum as specified in the relevant term sheet; and
- (iii) this principal brochure for Hang Seng GLDs dated 23 February 2017 and any updating addendum as specified in the relevant term sheet.

**We (as the intermediary) have an obligation to distribute all of the above documents to you in English or Chinese as you may prefer. Before you decide whether to invest in Hang Seng GLDs, you should read and understand all the relevant offering documents referred to above.**

## OFFEROR'S INFORMATION

- Name of the Offeror: Hang Seng Bank Limited
- Address: 83 Des Voeux Road Central, Hong Kong

- Website: [www.hangseng.com](http://www.hangseng.com)
- Hotline for enquiry: 28220228

**IMPORTANT**

If you are in doubt, you should seek independent professional advice.

**KEY FACTS STATEMENT (B)**  
**Hang Seng Non-Capital Protected Unlisted Gold Linked Deposits (“Hang Seng GLDs”)**  
**(with Paper Gold as the Initial Investment)**  
offered by  
**Hang Seng Bank Limited**

**This is an unlisted structured product embedded with derivatives.**

**This statement provides you with key information about one variation of Hang Seng GLDs: Hang Seng GLDs (with Paper Gold as the Initial Investment). This statement is a part of the offering documents. You should not invest in Hang Seng GLDs based on this statement alone.**

**WHAT IS THIS PRODUCT?**

Hang Seng GLDs (with Paper Gold as the Initial Investment) are unlisted non-capital protected structured products which have an embedded call option over Loco London Gold as the reference asset against the specified currency. This product does not provide for delivery of any physical gold at maturity but provides for settlement in paper gold as the maturity receivable in certain circumstances.

On the start date, you credit to us a number of paper gold units as the initial investment to acquire this product. Your potential gain/loss under this product depends on the final fixing price of Loco London Gold in comparison with the pre-determined strike price.

At maturity of this product, you will receive the maturity receivable in either of the following forms:

- (i) If the final fixing price is **at or below** the strike price, you will receive a particular quantity of paper gold equal to the sum of your initial investment and a predetermined number of paper gold units as the distribution amount. You receive an increased number of paper gold units equal to the distribution amount in this case.

However, notwithstanding the increase in the number of paper gold units you receive, the paper gold price may have decreased and you will suffer a loss or substantial loss if the prevailing value of the maturity receivable is less or substantially less than the value of your initial investment at the time your order is placed; or

- (ii) If the final fixing price is **above** the strike price, you will receive a cash amount in the specified currency equal to the cash proceeds of selling a particular quantity of gold (corresponding to the sum of your initial investment and the predetermined distribution amount in paper gold units) at the strike price. You make a gain in this case which is limited to the difference between such cash proceeds and the value of your initial investment at the time your order is placed. However, you lose the opportunity cost of selling such quantity of gold at the prevailing gold price which is higher than the strike price. If you wish to buy back such number of paper gold units equal to the initial investment in this scenario after maturity, you may need to incur extra cost in excess of the cash amount you received as the maturity receivable, because the prevailing gold price at or after maturity may be higher, or substantially higher, than the strike price.

See “What are the Key Features of this Product?” below for further information on how this product works.

**WHAT ARE THE KEY RISKS?**

**Investment involves risks. Please refer to the “Risk Factors” section in this principal brochure for details.**

- **Not capital protected** — Hang Seng GLDs are not capital protected: you could lose all of your investment.
- **No collateral** — Hang Seng GLDs are not collateralised and are not secured on any of our assets.
- **Unlisted structured products and NOT protected deposits** — Hang Seng GLDs are unlisted structured products embedded with derivatives and are not equivalent to nor should they be treated as substitutes for conventional time deposits. They are NOT protected deposits for the purposes of the Deposit Protection Scheme in Hong Kong.

- **Limited maximum potential gain** — The maximum potential gain is limited to the difference between the maturity receivable in the form of a cash amount in the specified currency and the value of the initial investment in paper gold (as determined at the time the Hang Seng GLD order is placed in the specified currency).
- **Liquidity risk** — Hang Seng GLDs are designed to be held till maturity. There will be no market making arrangements for Hang Seng GLDs, and you cannot transfer or early terminate your Hang Seng GLD without our consent.
- **Counterparty risk** — Hang Seng GLDs constitute general unsecured and unsubordinated contractual obligations of Hang Seng Bank Limited as the Offeror. When you invest in Hang Seng GLDs, you will be relying on the creditworthiness of Hang Seng Bank Limited and of no other person. If Hang Seng Bank Limited (in its capacity as the Offeror) becomes insolvent or defaults on its obligations under Hang Seng GLDs, in the worst case scenario, you could lose all of your initial investment.
- **Not the same as investing in gold** — Investing in Hang Seng GLDs is not the same as investing in gold. You do not own any gold by investing in Hang Seng GLDs. Changes in the gold price may not lead to a corresponding change in your potential gain/loss under Hang Seng GLDs.
- **No physical delivery of gold** — The maturity receivable under Hang Seng GLDs will depend on the final fixing price of gold. In the case **where the final fixing price is at or below the strike price**, we will not deliver any physical gold to you as the maturity receivable. Instead, **the maturity receivable will be settled in the form of paper gold** which will be credited to your paper gold grain account maintained with us on the maturity date. In such case:
  - (a) **No rights in gold** — The allocation of paper gold in your paper gold grain account is notional and is for the sole purpose of determining the cash value of your investment in such account. You do not have any rights, ownership and possession of any physical gold in such account.
  - (b) **Paper gold units are traded in paper gold price in HKD only which may be worse than the prevailing USD gold price** — The paper gold units credited to your paper gold grain account are traded in the paper gold price quoted by us in HKD only but not the prevailing gold price customarily quoted in USD in the international bullion market. If the maturity receivable is determined to be a particular quantity of paper gold, you will be exposed to movement in HKD paper gold prices (rather than USD gold prices) from and after the final fixing date. Such HKD paper gold prices may be adversely affected by (i) a change in the prevailing exchange rate between USD and HKD and/or the prevailing USD gold price and (ii) our profit margins incorporated therein. Accordingly, changes in the USD gold prices may not necessarily lead to any corresponding change in the HKD paper gold prices, and such HKD paper gold prices may be worse than the HKD equivalent of the prevailing USD gold price for the corresponding quantity of gold.
  - (c) **Paper gold is an investment product involving credit and liquidity risks** — Paper gold is an investment product offered by us which involves risks such as the risk of relying on the creditworthiness of Hang Seng Bank Limited in holding and trading paper gold through your paper gold grain account and the risk of lack of liquidity as you can only trade paper gold with us.
- **Exposure to risks from the time you place an order** — Once you place an order with us, you will be committed to invest in the Hang Seng GLD. You will be exposed to the risks associated with the Hang Seng GLD starting from the time you place an order.
- **What you receive at maturity is subject to volatility of USD gold price** — What you receive under your Hang Seng GLD at maturity will depend on the final fixing price in comparison with the strike price. The final fixing price will be affected by the prevailing USD gold price on the final fixing date. The prevailing USD gold price may go down as well as up since it is affected by a variety of factors that are unpredictable.
- **What you receive at maturity may also be subject to exchange rate risk** — If you do not choose USD as the specified currency, in addition to the prevailing USD gold price on the final fixing date, the final fixing price will also be affected by the prevailing exchange rate between USD and the specified currency. Accordingly, even if the prevailing USD gold price remains stable, a change in the prevailing exchange rate between USD and the specified currency could cause the final fixing price to move against you and result in the lapse of the call option over gold against the specified currency which may lead to a loss under your Hang Seng GLD.

- **Not covered by Investor Compensation Fund**— Hang Seng GLDs are not listed on any stock exchange and are not covered by the Investor Compensation Fund in Hong Kong.
- **Conflicts of interest**— You should note that conflicts of interest may arise from the different roles played by us and our subsidiaries and affiliates in connection with Hang Seng GLDs and your paper gold grain account maintained with us and our economic interests in each role may be adverse to your interests in Hang Seng GLDs or your paper gold grain account.
- **Additional risks for Hang Seng GLDs with RMB as specified currency** —
  - (i) **Limited pool of RMB outside the PRC** — RMB is subject to foreign exchange control by the PRC central government. There is currently a limited pool of RMB outside the PRC and any tightening of foreign exchange control may adversely affect the liquidity of offshore RMB, and the value and/or potential gain or loss of such Hang Seng GLDs.
  - (ii) **Offshore RMB exchange rate and interest rate risks** — The final fixing price will be affected by offshore RMB exchange rate. You should note that the offshore RMB exchange rate may deviate significantly from the onshore RMB exchange rate. Changes in the offshore RMB exchange rate could cause the final fixing price to move against you and result in the lapse of the call option over gold against the specified currency which may lead to a loss under your Hang Seng GLD. In addition, interest rates for onshore RMB are controlled by the PRC central government. Any further liberalisation of interest rate for onshore RMB may influence the interest rate for offshore RMB which may adversely affect the value and/or potential gain or loss of such Hang Seng GLD.
  - (iii) **Payment postponement for RMB disruption event** — If an RMB disruption event occurs on a scheduled date of payment, payments will be postponed and may be made in a HKD equivalent amount. We will not pay any extra amount for such postponed payment. You may also suffer a loss in HKD terms if RMB depreciates against HKD following the occurrence of an RMB disruption event.

## WHAT ARE THE KEY FEATURES OF THIS PRODUCT?

- **How Does this Product Work?**
  - (a) **Initial Investment:** You credit to us a number of paper gold units (which is subject to the minimum initial investment as specified in the term sheet) as the initial investment to acquire additional investment exposure to gold as the reference asset under this product. Although gold is the reference asset under this product, you will not deliver any physical gold to us as the initial investment. Instead, we will debit such number of paper gold units as the initial investment from your paper gold grain account maintained with us on the start date. We do not accept delivery of any physical gold as the initial investment. Although you credit to us paper gold as the initial investment, the maturity receivable under Hang Seng GLDs will depend on the final fixing price of Loco London Gold (rather than paper gold prices).
  - (b) **Reference Asset of this Product:** The reference asset under this product is Loco London Gold (which must have a fineness of not less than 99.5%) as specified by the London Bullion Market Association or its successor (“**gold**”). Each unit of gold (“**gold unit**”) is denominated in 1 troy ounce of gold.
  - (c) **Paper Gold:** This product provides for settlement in paper gold as the maturity receivable if the final fixing price of gold is at or below the strike price. “**Paper gold**” means a notional amount of gold credited to your paper gold grain account maintained with us, the offering of which is authorised by the SFC under Part IV of the SFO. Please refer to the latest paper gold offering documents for further details. Each unit of paper gold (“**paper gold unit**”) is denominated in 0.1 gold unit (i.e. 0.1 troy ounce of gold). Although the maturity receivable under this product will depend on the final fixing price of gold, if the maturity receivable is determined to be a particular quantity of paper gold, the paper gold units credited to you as the maturity receivable are traded in paper gold prices only. Accordingly, your realised gain/loss will depend on the paper gold price at which you sell such paper gold units. **You may only sell or buy paper gold units at such HKD prices as quoted by us.**

- (d) **Specified Currency, Strike Price and Final Fixing Price:** You may choose Renminbi (“RMB”) or any major currencies which are non-restricted and freely convertible such as Hong Kong dollars (“HKD”) as specified in the term sheet as the specified currency under this product. The specified (a) currency will be specified in the term sheet. It is the currency in which any cash payment under this product is made and the strike price and the final fixing price are quoted. The strike price will be used to compare with the final fixing price in determining the maturity receivable on the final fixing date.

The **strike price**\* is quoted on a per gold unit basis in the specified currency which will be expressed in the relevant term sheet as either: (i) a fixed price; or (ii) a range of prices (the upper and lower limits will not exceed the mid-point of such price range by 2.5% in percentage terms). In case (ii), the exact strike price will be determined by us once your Hang Seng GLD order is accepted by us and such exact strike price will fall within such range. In that case, you will not know the exact strike price when you place a Hang Seng GLD order and such exact strike price will be set out in a confirmation to be sent to you within 2 business days after the order date.

The **final fixing price** is the mid-price per gold unit quoted in the specified currency as displayed on the price source (being the Bloomberg page “BFIX”) at the valuation time on the final fixing date. We will publish the final fixing price in our website (currently at [www.hangseng.com/gld\\_goldprices](http://www.hangseng.com/gld_goldprices)) as soon as practicable after such price is displayed on the price source.

- (e) **Maturity Receivable:** If on the final fixing date:

- (i) the final fixing price of gold is **at or below** the strike price, the call option over gold against the specified currency will lapse and you will receive a particular quantity of paper gold in paper gold units equal to the sum of the initial investment and the distribution amount in paper gold units as the maturity receivable on the maturity date; or
- (ii) the final fixing price of gold is **above** the strike price, the call option over gold against the specified currency will be exercised by us, and upon exercise of such call option on the final fixing date:
  - (I) a particular quantity of paper gold (as quoted on a per 0.1 troy ounce basis) equal to the sum of the initial investment and distribution amount in paper gold units will be converted into the corresponding quantity of gold (as quoted on a per troy ounce basis) at the conversion ratio of 10. Such particular quantity of gold will then be sold to us at the strike price; and
  - (II) a cash amount in the specified currency equal to the cash proceeds of selling such particular quantity of gold at the strike price will be paid to you as the maturity receivable on the maturity date.

In case (i) above, you are not entitled to demand delivery of any physical gold as the maturity receivable.

- (f) **Distribution Amount:** The distribution amount is a pre-determined number of paper gold units calculated as follows:

initial investment x actual distribution rate

Where:

$$\text{Actual distribution rate} = \text{annualised distribution rate} \times \frac{\text{deposit tenor}}{\text{day count}}$$

The **annualised distribution rate**\*^ will be expressed in the relevant term sheet as either: (i) a fixed percentage; or (ii) such percentage to be determined by us once your Hang Seng GLD order is accepted by us which will not be lower than the lowest annualised distribution rate offered by us (“**floor percentage**”) of 1% per annum. In case (ii), you will not know the exact annualised distribution rate when you place a Hang Seng GLD order and such exact annualised distribution rate will be set out in a confirmation to be sent to you within 2 business days after the order date.



The **deposit tenor** is the number of calendar days in the period from (and including) the start date (i.e. the date on which your initial investment will be deducted from your designated paper gold grain account) to (but excluding) the scheduled maturity date as specified in the relevant term sheet.

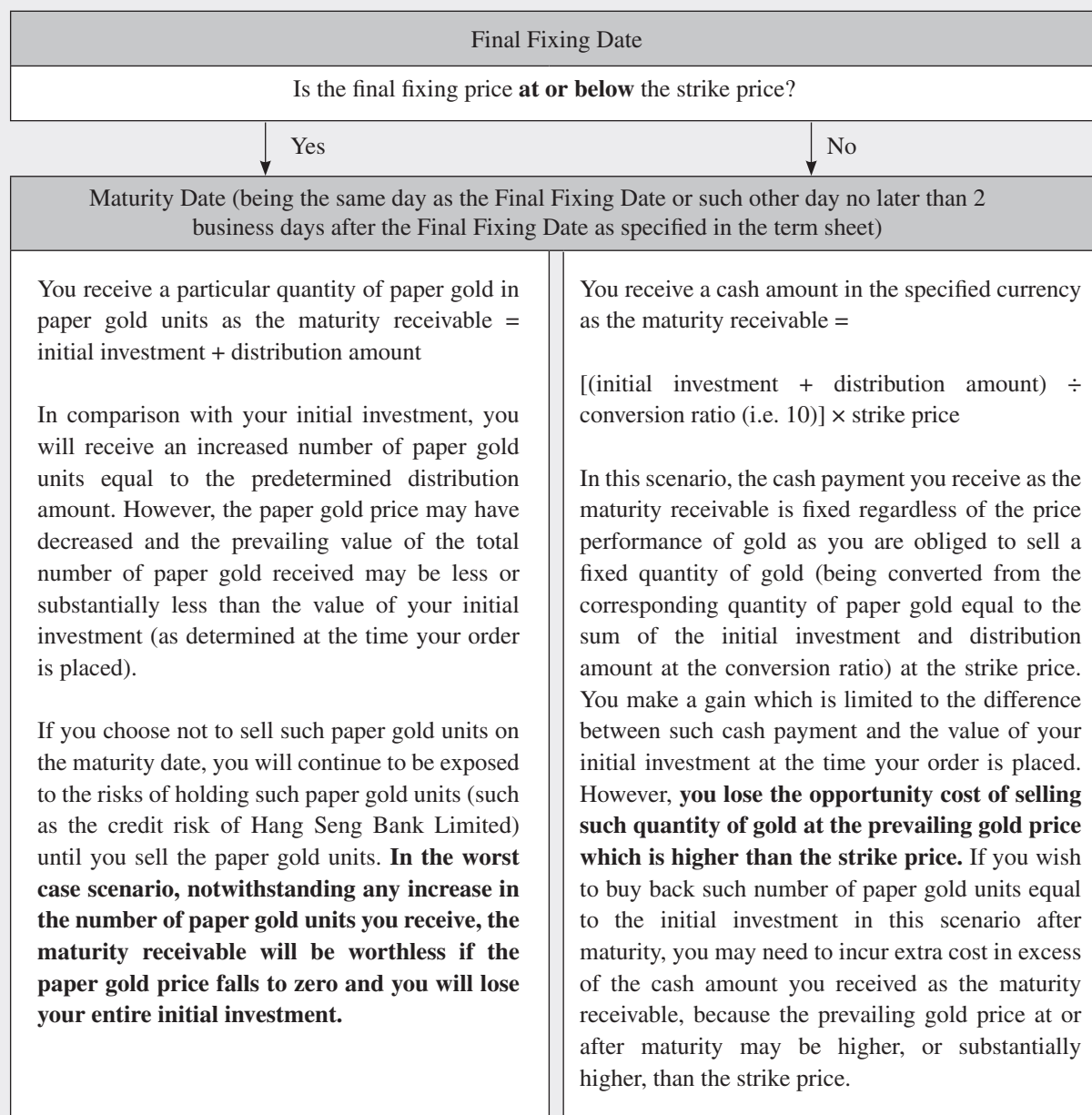
The **day count** is 360.

Notes:

\* If the strike price is expressed as a range of prices, the annualised distribution rate will be expressed as a fixed percentage. If the strike price is expressed as a fixed price, the annualised distribution rate will be expressed as such percentage to be determined by us once your Hang Seng GLD order is accepted by us which will not be lower than the floor percentage of 1% per annum.

^ The annualised distribution rate is used to calculate the actual distribution rate and the corresponding distribution amount only. You should not rely on it as an indication of the expected return for this product.

- **Flowchart Illustration of Maturity Receivable:** The chart below illustrates how we determine the maturity receivable under this product:



- **We credit paper gold as maturity receivable as opposed to delivering physical gold:** In the case where the final fixing price is at or below the strike price, the call option over gold against the specified currency will lapse. We will not deliver any physical gold to you but will instead credit a particular quantity of paper gold in paper gold units equal to the sum of the initial investment and distribution amount to your paper gold grain account maintained with us on the maturity date. Please refer to “No physical delivery of gold” under “What are the key risks?” above for the associated risks of receiving paper gold as the maturity receivable. You are not entitled to demand delivery of any physical gold as the maturity receivable.

## HOW CAN YOU APPLY FOR HANG SENG GLDS?

- You must have a paper gold grain account and an integrated account with us (as the intermediary) in order to apply to invest in Hang Seng GLDs.
- You may apply for a Hang Seng GLD by placing an order with us (as the intermediary) on any business day. Once you place an order with us (as the intermediary), you will be committed to invest in the Hang Seng GLD and your initial investment will be frozen from your designated paper gold grain account. As such, please ensure that you have adequate number of paper gold units in your designated paper gold grain account to be used as your initial investment. If your Hang Seng GLD order is accepted by us on such date as you place your order, such date will become the order date. The initial investment will be deducted from your designated paper gold grain account on the start date of the Hang Seng GLD.
- If your order is accepted by us on the order date, a confirmation which sets out all the finalised terms will be sent to you within 2 business days after the order date.

## NO POST-SALE COOLING-OFF PERIOD AND MARKET MAKING ARRANGEMENT

- Post-sale cooling-off period and market making arrangement are not applicable for Hang Seng GLDs as Hang Seng GLDs will not be offered with an investment period of over 6 months.

## PAYOFF SCENARIO

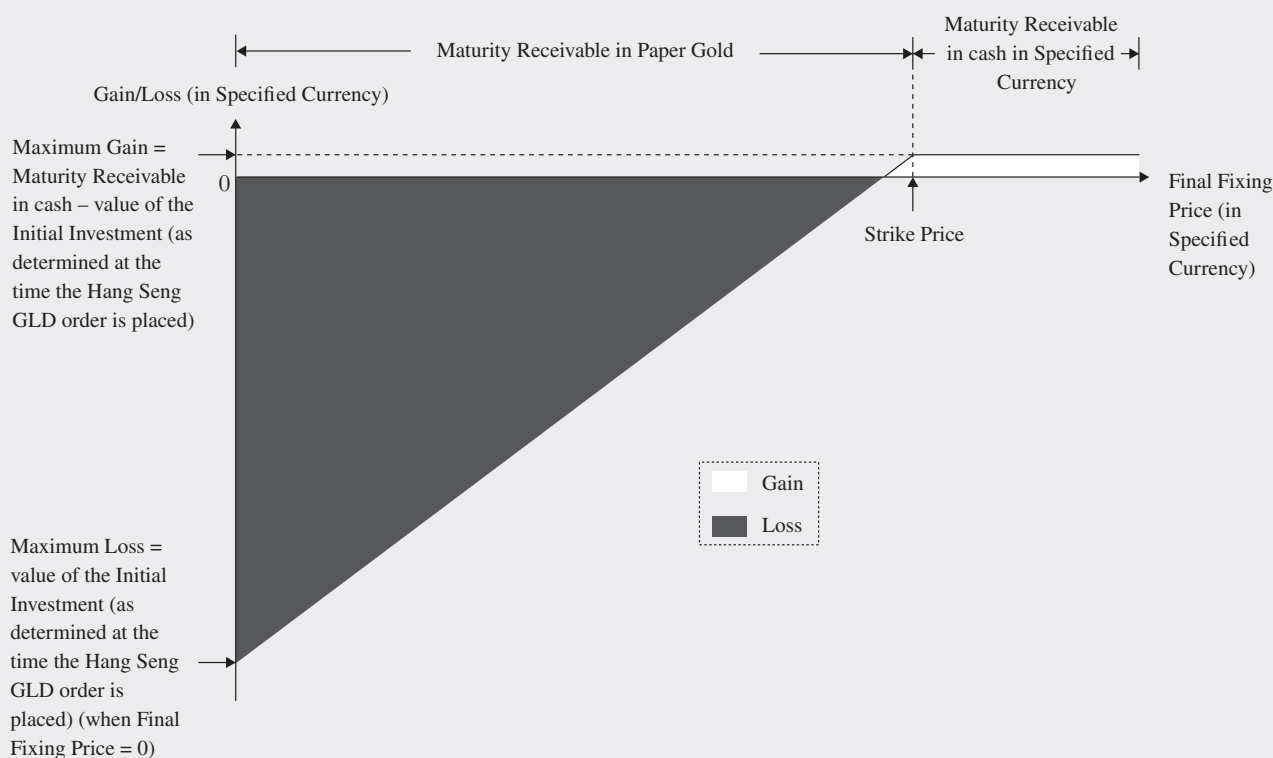
The below payoff diagram illustrates the potential gain/loss as measured in the specified currency with different final fixing prices, by comparing:

- in the case where the final fixing price is **at or below** the strike price, the value of your original initial investment in paper gold as of the order date as measured in the specified currency against the value of the maturity receivable in paper gold as of the final fixing date as measured in the specified currency<sup>+</sup>; and
- in the case where the final fixing price is **above** the strike price, the value of your original initial investment in paper gold as of the order date as measured in the specified currency against the maturity receivable in cash in the specified currency.

<sup>+</sup> For the purpose of simple illustration of the potential gain/loss, we have assumed that (i) the exchange rate between HKD and the specified currency remains unchanged between the order date and the final fixing date; and (ii) the value of the maturity receivable in paper gold as of the final fixing date is equal to the value of the corresponding quantity of gold as of the final fixing date by reference to the final fixing price, which in both cases are quoted in the specified currency. In real life situation, your realised gain/loss will depend on the paper gold price at which you sell such paper gold units (rather than the gold price). You should also bear in mind of the original paper gold price at which you purchase the paper gold units as the initial investment.

In the case where the final fixing price is above the strike price, you are obliged to sell a fixed quantity of gold (being converted from the corresponding quantity of paper gold equal to the sum of the initial investment and distribution amount at the conversion ratio) at the strike price. You **lose** the opportunity cost of selling such quantity of gold at the prevailing gold price which is higher than the strike price. **Your gain in such case is therefore limited.** If you wish to buy back such number of paper gold units equal to the initial investment in this scenario after maturity, you may need to incur extra cost in excess of the cash amount you received as the maturity receivable, because the prevailing gold price at or after maturity may be higher, or substantially higher, than the strike price.

The **worst case scenario** occurs when the final fixing price drops to zero whereby the maturity receivable is a particular quantity of paper gold with a value of zero as of the final fixing date. In such case, you will suffer a total loss of your investment.



Please also refer to the “Appendix D — Scenario Analysis” in this principal brochure for more illustrative examples of how the Hang Seng GLD (with Paper Gold as the Initial Investment) works.

## WHAT ARE THE FEES AND CHARGES?

- There are no subscription fees, charges or commission for placing a purchase order for a Hang Seng GLD. All related charges incurred by us (including our cost of hedging) will be factored into the determination of the annualised distribution rate and the strike price. For the avoidance of doubt, no settlement expenses are payable to us in connection with the settlement upon maturity.

## MARKET DISRUPTION EVENT AND EARLY TERMINATION OF HANG SENG GLDS

- We shall determine in good faith and in a commercially reasonable manner the final fixing price on the final fixing date upon the occurrence of a market disruption event (such as the failure of the price source to publish the final fixing price) on such date.
- Upon the occurrence of certain termination events (such as change in law, closure of your paper gold grain account, cessation of SFC’s authorisation for public offering of paper gold, material change in content of gold or hedging disruption), we shall have the right to early terminate Hang Seng GLDs. In such case, you will receive the early termination amount as determined by us acting in good faith and in a commercially reasonable manner. Such early termination amount might be less or substantially less than the amount that you originally invested.
- In addition, if the specified currency is RMB, payments under such Hang Seng GLDs will be postponed and may be made in a HKD equivalent amount if an RMB disruption event occurs on a scheduled date of payment.
- Please refer to pages 34, 38 and 39 of this principal brochure for details.

## CONTINUING DISCLOSURE OBLIGATIONS

- We (as the Offeror and the Product Arranger) will keep the SFC and investors of Hang Seng GLDs informed as soon as reasonably practicable if (a) we (as the Offeror) cease to meet any eligibility requirements applicable to issuers under the Code; (b) we (as the Product Arranger) cease to meet any eligibility requirements applicable to product arrangers under the Code; and (c) to the extent permitted by any applicable law, there are changes in our financial condition or other circumstances which could reasonably be expected to have a material adverse effect on our ability (as the Offeror) to fulfill our commitments in connection with Hang Seng GLDs. Please contact us for further details.

## ADDITIONAL INFORMATION

### Offering Documents

You should obtain the following offering documents from us:

- (i) the relevant term sheet for Hang Seng GLDs;
- (ii) the latest financial disclosure document and any updating addendum as specified in the relevant term sheet; and
- (iii) this principal brochure for Hang Seng GLDs dated 23 February 2017 and any updating addendum as specified in the relevant term sheet.

**We (as the intermediary) have an obligation to distribute all of the above documents to you in English or Chinese as you may prefer. Before you decide whether to invest in Hang Seng GLDs, you should read and understand all the relevant offering documents referred to above.**

## OFFEROR'S INFORMATION

- Name of the Offeror: Hang Seng Bank Limited
- Address: 83 Des Voeux Road Central, Hong Kong
- Website: [www.hangseng.com](http://www.hangseng.com)
- Hotline for enquiry: 28220228

## IMPORTANT

If you are in doubt, you should seek independent professional advice.

## RISK FACTORS

You should consider the risk factors set out in the section headed “WHAT ARE THE KEY RISKS?” in the Key Facts Statements of this principal brochure and the following risks:

- **Hang Seng GLDs are not capital protected**

Hang Seng GLDs are non-capital protected: you could lose all of your investment.

- **Limited maximum potential gain**

In the case of a Hang Seng GLD (with Cash as the Initial Investment), the maximum potential gain under the Hang Seng GLD is limited to a predetermined cash amount in the specified currency equal to the distribution amount.

In the case of a Hang Seng GLD (with Paper Gold as the Initial Investment), the maximum potential gain under the Hang Seng GLD is limited to the difference between the maturity receivable in the form of a cash amount in the specified currency (being the cash proceeds of selling a particular quantity of gold (corresponding to the sum of your initial investment and the predetermined distribution amount in paper gold units) at the strike price) and the value of the initial investment in paper gold (as determined at the time the Hang Seng GLD order is placed in the specified currency). However, you lose the opportunity cost of selling such quantity of gold at the prevailing gold price which is higher than the strike price. If you wish to buy back such number of paper gold units equal to the initial investment in this scenario after maturity, you may need to incur extra cost in excess of the cash amount you received as the maturity receivable, because the prevailing gold price at or after maturity may be higher, or substantially higher, than the strike price.

- **No collateral or guarantee**

Hang Seng GLDs are not collateralised and are not secured on any of our assets. Hang Seng GLDs are not guaranteed by any third party.

- **Unlisted structured products and NOT protected deposits**

Hang Seng GLDs are unlisted structured products embedded with derivatives and are not equivalent to nor should they be treated as substitutes for conventional time deposits. They are NOT protected deposits for the purposes of the Deposit Protection Scheme in Hong Kong.

- **Liquidity risk**

Hang Seng GLDs are designed to be held till maturity. As the investment period of all Hang Seng GLDs are 6 months or less, there will be no market making arrangements for Hang Seng GLDs, and you cannot transfer or early terminate Hang Seng GLDs without our consent.

- **Counterparty risk**

Hang Seng GLDs constitute general unsecured and unsubordinated contractual obligations of Hang Seng Bank Limited as the Offeror. When you invest in Hang Seng GLDs, you will be relying on the creditworthiness of Hang Seng Bank Limited and of no other person. If Hang Seng Bank Limited (in its capacity as the Offeror) becomes insolvent or defaults on its obligations under Hang Seng GLDs, you can only claim as an unsecured creditor of us regardless of the performance of gold. In the worst case scenario, you could lose all of your initial investment.

- **Not the same as investing in gold**

Investing in Hang Seng GLDs is not the same as investing in gold. You do not own any gold by investing in Hang Seng GLDs. Changes in the gold price may not lead to a corresponding change in your potential gain/loss under Hang Seng GLDs.

- **No physical delivery of gold**

The maturity receivable under Hang Seng GLDs will depend on the final fixing price of gold. In the case where the final fixing price is below (in the case of a Hang Seng GLD (with Cash as the Initial Investment)) or at or below (in the case of a Hang Seng GLD (with Paper Gold as the Initial Investment)) the strike price, we will not deliver any physical gold to you as the maturity receivable. Instead, **the maturity receivable will be settled in the form of paper gold** which will be credited to your paper gold grain account maintained with us on the maturity date. In such case:

- (a) *No rights in gold* — The allocation of paper gold in your paper gold grain account is notional and is for the sole purpose of determining the cash value of your investment in such account. You do not have any rights, ownership and possession of any physical gold in such account.
- (b) *Exposure to price movements of paper gold from the final fixing date* — The maturity receivable will be determined on the final fixing date and the settlement will only occur on the maturity date (being the same day as the final fixing date or such other day no later than 2 business days after the final fixing date as specified in the term sheet). Accordingly, you will be exposed to any price movement of paper gold from the final fixing date. In addition, if you choose not to sell such paper gold units on the maturity date, you will be exposed to the risks of holding such paper gold units until you sell the paper gold units. In the worst case scenario, such paper gold units may be worthless.
- (c) *Paper gold units are traded in paper gold price in HKD only which may be worse than the prevailing USD gold price* — The paper gold units credited to your paper gold grain account are traded in the paper gold price quoted by us in HKD only but not the prevailing gold price customarily quoted in USD in the international bullion market. If the maturity receivable is determined to be a particular quantity of paper gold, you will be exposed to movement in HKD paper gold prices (rather than USD gold prices) from and after the final fixing date. Such HKD paper gold prices may be adversely affected by (i) a change in the prevailing exchange rate between USD and HKD and/or the prevailing USD gold price and (ii) our profit margins incorporated therein. See “What is paper gold as recorded in paper gold grain account?” on page 31 of this principal brochure for more details as to how we determine the paper gold price. Accordingly, changes in the USD gold prices may not necessarily lead to any corresponding change in the HKD paper gold prices, and such HKD paper gold prices may be worse than the HKD equivalent of the prevailing USD gold price for the corresponding quantity of gold.
- (d) *Paper gold is an investment product involving risks* — Paper gold is an investment product offered by us which involves risks, such as:
  - (i) *Counterparty risk* — You will be relying on the creditworthiness of Hang Seng Bank Limited in holding and trading paper gold through your paper gold grain account. If Hang Seng Bank Limited becomes insolvent or defaults on its obligations under the paper gold grain account, you can only claim as an unsecured creditor of us;
  - (ii) *Early termination and set-off risks* — We may exercise our right in good faith and in a commercially reasonable manner to close your paper gold grain account maintained with us at any time or to consolidate any balances standing to the credit of your accounts with us to set-off against any indebtedness owed by you to us. Closure of your paper gold grain account may lead to early termination of Hang Seng GLDs (see the “Risks in relation to early termination” below for further details); and
  - (iii) *No liquidity* — There is no trading market for paper gold. You can only buy and sell paper gold from and to us at the paper gold price quoted by us but not anyone else.

Please refer to the relevant paper gold offering documents for further information and risk disclosure in relation to paper gold.

- **Not covered by Investor Compensation Fund**

Hang Seng GLDs are not listed on any stock exchange and are not covered by the Investor Compensation Fund in Hong Kong.



- **Risks in relation to early termination**

Upon an occurrence of certain events as provided in condition 5 of the terms and conditions set out in Appendix A to this principal brochure (such as change in law, closure of your paper gold grain account, cessation of SFC's authorisation for public offering of paper gold, material change in content of gold or hedging disruption), Hang Seng GLDs will be terminated prior to the final fixing date at the early termination amount as determined by us (acting in good faith and in a commercially reasonable manner) to be the fair value of Hang Seng GLDs as of the date of termination by taking into account factors such as the prevailing market conditions including (without limitation) the value of the relevant embedded derivatives, market interest rate movements, volatility of the gold price, the strike price, the remaining deposit tenor of Hang Seng GLDs, any accrued distribution amount, the creditworthiness of Hang Seng Bank Limited and our unwind cost on any hedging arrangements relating to the Hang Seng GLDs. Such early termination amount might be less or substantially less than the amount that you originally invested.

- **Hedging risks**

We as the Offeror or any affiliated entity of us may enter into hedging transactions with counterparties in the market in order to enable us to fulfil our obligations under Hang Seng GLDs. These transactions would typically involve contracts for: (i) the purchase and/or sale of gold against the specified currency; (ii) purchase and/or sale of gold against a particular currency and a particular currency against the specified currency; (iii) the establishment of long and/or short positions in gold against the specified currency; and/or (iv) the establishment of long and/or short positions in gold against a particular currency and a particular currency against the specified currency, any of which may be constantly adjusted. The unwinding or adjustment of the positions in gold against the specified currency or a particular currency and/or the positions in a particular currency against the specified currency shortly before a relevant date under Hang Seng GLDs may itself affect the market prices of gold against the specified currency on the relevant date, particularly if there is a low trading volume in gold at that time.

It is possible that this activity could cause the final fixing price to move against you and result in the exercise of the put option over gold against the specified currency (in the case of a Hang Seng GLD (with Cash as the Initial Investment)) or lapse of the call option over gold against the specified currency (in the case of a Hang Seng GLD (with Paper Gold as the Initial Investment)) which may lead to a loss under your Hang Seng GLD.

If the counterparties default or fail to fulfil their obligations under the hedging transactions, we will bear all the risk involved and we will keep the same terms and payment structures of Hang Seng GLDs.

- **Conflicts of interest**

You should note that conflicts of interest may arise from the different roles played by us and our subsidiaries and affiliates in connection with Hang Seng GLDs and your paper gold grain account maintained with us. For example, we may enter into hedging activities in relation to Hang Seng GLDs as mentioned in "hedging risks" above and we are responsible for determining the paper gold prices in good faith and in a commercially reasonable manner under your paper gold grain account maintained with us. Our economic interests in each role may be adverse to your interests in Hang Seng GLDs or your paper gold grain account. We have policies and procedures to minimise and manage such conflicts and we have regulatorily required information barriers between our different divisions or units to comply with applicable laws and regulations, and, in any case, all such transactions or dealings in relation to Hang Seng GLDs or your paper gold grain account will be transacted at arm's length.

- **You will be exposed to risks from the time you place an order**

Once you place an order with us, you will be committed to invest in the Hang Seng GLD. You are exposed to the risks associated with the Hang Seng GLD from the time you place an order.

- **What you receive at maturity is subject to volatility of USD gold price**

What you receive under your Hang Seng GLD at maturity will depend on the final fixing price in comparison with the strike price. The final fixing price will be affected by the prevailing USD gold price on the final fixing date. The prevailing USD gold price may go down as well as up since it is affected by a variety of factors that are unpredictable, including, without limitation, changes in supply and demand relationships, governmental programs and policies, national and international political, military, terrorist and economic events, fiscal, monetary and exchange control programs, changes in interest and exchange rates and changes, suspensions or disruptions of market trading activities in commodities and related contracts. These factors may affect the prevailing USD gold price in varying ways.

- **Exchange rate risk**

(a) *What you receive at maturity may also be subject to exchange rate risk*

Gold prices are customarily quoted in USD in the international bullion market whereas the final fixing price and the strike price are quoted in the specified currency. If you do not choose USD as the specified currency for a Hang Seng GLD, in addition to the prevailing USD gold price on the final fixing date, the final fixing price in respect of such Hang Seng GLD will also be affected by the prevailing exchange rate between USD and the specified currency.

To illustrate the effect of the prevailing exchange rate and the prevailing USD gold price on the final fixing price (assuming the other factors remain unchanged between the order date and the final fixing date), we set out certain examples below. In these examples, the strike price is set as 100% of the gold price quoted in the specified currency at the time the Hang Seng GLD order is placed.

| <b>Examples</b> | <b>(1) USD gold price on the final fixing date</b><br><i>(expressed as % of USD gold price at the time the Hang Seng GLD order is placed)</i> | <b>(2) Specified currency/ USD exchange rate on the final fixing date</b><br><i>(expressed as % of specified currency/USD exchange rate at the time the Hang Seng GLD order is placed)</i> | <b>(3) Final fixing price</b><br><i>(= (1)/(2), expressed as % of gold price quoted in specified currency at the time the Hang Seng GLD order is placed)</i> |
|-----------------|---|--|--|
| 1               | 80% (i.e. USD gold price drops by 20%)  | 60% (i.e. specified currency depreciates by 40%)   | 133.33% (i.e. > strike price)  |
| 2               | 100% (i.e. no change in USD gold price)   | 80% (i.e. specified currency depreciates by 20%)   | 125% (i.e. > strike price)   |
| 3               | 100% (i.e. no change in USD gold price)   | 120% (i.e. specified currency appreciates by 20%)  | 83.33% (i.e. < strike price)   |
| 4               | 120% (i.e. USD gold price rises by 20%)   | 150% (i.e. specified currency appreciates by 50%)  | 80% (i.e. < strike price)  |

Please refer to “Appendix D — Scenario Analysis” in this principal brochure for more illustrative examples of how the final fixing price will be affected by such exchange rate.

Assuming there is no change in the USD gold price between the order date and the final fixing date,

- (i) a depreciation of the specified currency against USD over such period will nonetheless result in an increase in gold price quoted in the specified currency, because for the same quantity of gold, you will use more amount of the specified currency to change for the corresponding USD amount at the prevailing exchange rate to buy such quantity of gold; or
- (ii) an appreciation of the specified currency against USD over such period will nonetheless result in a decrease in gold price quoted in the specified currency, because for the same quantity of gold, you will use less amount of the specified currency to change for the corresponding USD amount at the prevailing exchange rate to buy such quantity of gold.

**Accordingly, even if the prevailing USD gold price remains stable, a change in the prevailing exchange rate between USD and the specified currency could cause the final fixing price to move against you which may lead to a loss under your Hang Seng GLD.**

- (b) *Exchange rate risk in converting maturity receivable in the form of a cash amount in the specified currency to your home currency or HKD*

If the specified currency of a Hang Seng GLD is not your home currency and you receive the maturity receivable in the form of a cash amount in the specified currency, you will be exposed to fluctuations in the prevailing exchange rate between the specified currency and your home currency when you convert such maturity receivable in the specified currency back to your home currency.

In addition, in the case where you invest in a Hang Seng GLD (with Paper Gold as the Initial Investment) by crediting to us an amount of paper gold which is traded in HKD but choose the specified currency which is not HKD, if you receive the maturity receivable in the form of a cash amount in the specified currency, you will be exposed to fluctuations in the prevailing exchange rate between the specified currency and HKD when you convert such maturity receivable in the specified currency to HKD.

- (c) *Exchange rate risk in converting the HKD proceeds of selling maturity receivable in the form of paper gold to the specified currency*

In addition, if the specified currency of a Hang Seng GLD is not HKD and you receive the maturity receivable in the form of paper gold in paper gold units, you will nevertheless receive the proceeds in HKD upon selling such paper gold units, and will be exposed to fluctuations in the prevailing exchange rate between the specified currency and HKD if you convert such HKD proceeds back to the specified currency.

- **The exact strike price or annualised distribution rate may only be determined after you have committed to invest in a Hang Sang GLD**

You should note that once you place your Hang Seng GLD order with us, you will be committed to invest in the Hang Seng GLD even if you do not know the exact strike price or annualised distribution rate when you place your order. The exact strike price or annualised distribution rate may only be determined by us once your Hang Seng GLD order is accepted by us.

The strike price may be expressed in the relevant term sheet as a range of prices (the upper and lower limits will not exceed the mid-point of such price range by 2.5% in percentage terms). In such case, the exact strike price will be determined by us in our sole and absolute discretion acting in good faith and in a commercially reasonable manner, taking into account various factors as set out in the glossary section on page 33 of this principal brochure in order to maintain the fixed annualised distribution rate of the Hang Seng GLD, given any change in the parameters used in the determination of such terms during the period between you place a Hang Seng GLD order with us and your order is accepted by us. In the worst case, the exact strike price is set at the upper limit of the price range for Hang Seng GLD with Cash as the Initial Investment, or the lower limit of the price range for Hang Seng GLD with Paper Gold as the Initial Investment.

The annualised distribution rate may be expressed in the relevant term sheet as such percentage to be determined by us once your Hang Seng GLD order is accepted by us which will not be lower than 1% per annum. In such case, the exact annualised distribution rate will be determined by us in our sole and absolute discretion acting in good faith and in a commercially reasonable manner, taking into account various factors as set out in the glossary section on page 37 of this principal brochure in order to maintain the fixed strike price of the Hang Seng GLD, given any change in the parameters used in the determination of such terms during the period between you place a Hang Seng GLD order with us and your order is accepted by us. You should note that it is possible that the exact annualised distribution rate that is applicable to your Hang Seng GLD will be set as the floor percentage as specified in the relevant term sheet (i.e. 1% per annum).

For any Hang Seng GLD to be offered by us, either the strike price or the annualised distribution rate may be a range or a floor percentage respectively, and the other must be a fixed price or percentage.

- **Other risk factors specific to Hang Seng GLDs with RMB as specified currency**

Where the specified currency is RMB, you should note the following additional risks:

*(i) Offshore RMB exchange rate risks*

While both onshore Renminbi (i.e. Renminbi traded in the mainland China) (“**onshore RMB**”) and offshore Renminbi (i.e. Renminbi traded outside the mainland China) (“**RMB**” or “**offshore RMB**”) are the same currency, they are traded in different and separate markets operating under different regulations and independent liquidity pool. Onshore RMB and offshore RMB are currently quoted in different markets with different exchange rates, whereby their exchange rate movements may not be in the same direction or magnitude. The offshore RMB exchange rate may deviate significantly from the onshore RMB exchange rate.

In the case of a Hang Seng GLD (with Cash as the Initial Investment), changes in the offshore RMB exchange rate could cause the final fixing price to fall below the strike price and result in the exercise of the put option over gold against the specified currency which may lead to a loss under your Hang Seng GLD.

In the case of a Hang Seng GLD (with Paper Gold as the Initial Investment), changes in the offshore RMB exchange rate could cause the final fixing price to (i) fall to or below the strike price and result in the lapse of the call option over gold against the specified currency which may lead to a loss under your Hang Seng GLD or (ii) rise above the strike price and result in the exercise of the call option over gold against the specified currency which may lead to a loss of the opportunity cost of selling a particular quantity of gold at the prevailing gold price which is higher than the strike price.

The offshore RMB exchange rate will be affected by, amongst other things, the People’s Republic of China (“**PRC**”) central government’s foreign exchange control. Non RMB-based investors may have to convert their home currency into RMB when investing in Hang Seng GLDs (with Cash as the Initial Investment). Such investors may also have to convert any RMB payments received from Hang Seng GLDs back to their home currency. During these processes, such investors will incur currency conversion costs and be exposed to risk of fluctuation in the offshore RMB exchange rate against their home currency.

Please note that like other foreign currencies, the offshore RMB exchange rate may rise or fall. There is no guarantee that RMB will not depreciate. Our Hang Seng GLDs with RMB as the specified currency shall not be used as an investment for speculating in the appreciation of RMB.

*(ii) Limited pool of RMB outside the PRC*

RMB is subject to foreign exchange control and restrictions by the PRC central government.

There may be additional rules, regulations and restrictions under contemplation or to be issued by the relevant Hong Kong or PRC authorities that may be relevant to your investment in such Hang Seng GLDs. You should check with us for updates and details.

There is currently a limited pool of RMB outside the PRC. Should the PRC central government tighten its foreign exchange control over the cross border movements between onshore RMB and offshore RMB, the liquidity in RMB is likely to be adversely affected. Such limitation on liquidity in RMB may increase our unwind cost on any hedging arrangements relating to the Hang Seng GLDs with RMB as the specified currency which in turn may adversely affect the value and/or potential gain or loss of such Hang Seng GLDs.

*(iii) Payment postponement for RMB disruption event*

Upon the occurrence of an RMB disruption event (i.e. an event that, as determined by us in our sole and absolute discretion acting in good faith and in a commercially reasonable manner, makes it impossible for us (a) to obtain a firm quote of a price quoted in USD against RMB in respect of any amount due and payable in RMB under the Hang Seng GLDs in the RMB exchange market in Hong Kong (except due to issues relating to our creditworthiness), (b) to convert any amount due and payable in RMB under the Hang Seng GLDs in the RMB exchange market in Hong Kong (except due to issues relating to our creditworthiness) and/or (c) to transfer RMB between accounts inside Hong Kong) on a scheduled date of payment, payment of the maturity receivable or the early termination amount in cash may be postponed up to the third business day after 10 business days following such original scheduled date of payment. If the RMB disruption event continues to exist for 10 business days after such original scheduled date of payment, we will make such

payment in a HKD equivalent amount by using the offshore RMB exchange rate against HKD as of such tenth business day as determined by us in our sole and absolute discretion acting in good faith and in a commercially reasonable manner. Please refer to “What happens if an RMB disruption event occurs on a scheduled date of payment?” on pages 38 and 39 of this principal brochure for further details.

The occurrence of an RMB disruption event could delay a payment to you under the Hang Seng GLDs. We will not pay any extra amount (such as interest) for any delay in making such payment. You may suffer potential loss in interest which could otherwise be earned through placing the relevant amount in a bank deposit had there not been a delay in making such payment. In addition, if such payment is made in a HKD equivalent amount, you will be exposed to the risk of fluctuation in the offshore RMB exchange rate against HKD. If offshore RMB depreciates significantly against HKD following the occurrence of an RMB disruption event, you will suffer a loss in HKD terms as the HKD equivalent amount paid to you will be substantially less than the value of the relevant amount payable in RMB on the original payment date in HKD terms (calculated based on the offshore RMB exchange rate against HKD prior to the occurrence of the RMB disruption event).

*(iv) RMB interest rate risk*

The interest rate for offshore RMB may be different from the interest rate for onshore RMB. The interest rate for offshore RMB and the interest rate for onshore RMB are currently quoted in different markets with different rates, whereby their movements may not be in the same direction or magnitude. The interest rate for offshore RMB may deviate significantly from the interest rate for onshore RMB. Interest rates for onshore RMB are controlled by the PRC central government. The PRC central government has gradually liberalised the regulations of interest rates in recent years. In the case where there would be any further liberalisation of the interest rate for onshore RMB, such further liberalisation may affect the interest rate for offshore RMB. The value and/or potential gain or loss of our Hang Seng GLDs with RMB as the specified currency may be adversely affected by the fluctuations in the interest rate for offshore RMB.

## KEY FEATURES OF HANG SENG GLDS

### What are Hang Seng GLDs?

Hang Seng GLDs are unlisted non-capital protected structured products which have an embedded option over Loco London Gold as the reference asset against the specified currency.

Hang Seng GLDs have two variations as follows:

- (i) Hang Seng Non-Capital Protected Unlisted Gold Linked Deposits (with Cash as the Initial Investment) which have an embedded put option over gold against the specified currency sold by you to us; and
- (ii) Hang Seng Non-Capital Protected Unlisted Gold Linked Deposits (with Paper Gold as the Initial Investment) which have an embedded call option over gold against the specified currency sold by you to us.

You pay or credit to us the following initial investment on the start date to acquire an investment exposure to gold:

- (i) under a Hang Seng GLD (with Cash as the Initial Investment), a cash amount in the specified currency as the initial investment; or
- (ii) under a Hang Seng GLD (with Paper Gold as the Initial Investment), a number of paper gold units as the initial investment.

The maturity receivable under a Hang Seng GLD is determined by reference to the final fixing price of Loco London Gold (as determined on the final fixing date) in comparison with the pre-determined strike price. The maturity receivable is either in the form of a cash amount in the specified currency or a particular quantity of paper gold.

**Although gold is the reference asset under a Hang Seng GLD, you will not deliver any physical gold to us as the initial investment, nor will we deliver any physical gold to you as the maturity receivable. Instead:**

- (i) under a Hang Seng GLD (with Cash as the Initial Investment), if the final fixing price is below the strike price, the put option over gold against the specified currency will be exercised under which you will be obliged to buy a particular quantity of gold at the strike price. We will credit a particular quantity of paper gold in paper gold units (corresponding to the equivalent weight of the relevant quantity of gold) to your paper gold grain account maintained with us on the maturity date.
- (ii) under a Hang Seng GLD (with Paper Gold as the Initial Investment):
  - (a) we will debit such number of paper gold units as the initial investment from your paper gold grain account maintained with us on the start date.
  - (b) if the final fixing price is at or below the strike price, the call option over gold against the specified currency will lapse. We will credit a particular quantity of paper gold in paper gold units equal to the sum of the initial investment and distribution amount to your paper gold grain account maintained with us on the maturity date.

Please refer to “No physical delivery of gold” under the risk factors section above for the associated risks of receiving paper gold as the maturity receivable.



## **What is the reference asset of Hang Seng GLD?**

The reference asset of Hang Seng GLD is Loco London Gold (which must have a fineness of not less than 99.5%) as specified by the London Bullion Market Association or its successor (“**gold**”). It represents the basis for international trading and settlement in gold for London bullion market. Gold is customarily measured by troy ounces, with each troy ounce equal to about 31.1034 grams. Gold prices are customarily quoted in USD in the international bullion market.

You can also view the website of the London Bullion Market Association (<http://www.lbma.org.uk>) (in English language version only) to obtain further information of gold.

We will publish the prevailing gold prices quoted in USD and any other specified currency(ies) as displayed on the price source (being the Bloomberg page “**BFIX**”) at the valuation time on each commodity business day in our website (currently at [www.hangseng.com/gld\\_goldprices](http://www.hangseng.com/gld_goldprices)) as soon as practicable after such price is displayed on the price source.

Information included on such third party’s website and information included in our own website (other than the electronic copies of the offering documents appearing on our website) do not form part of the offering documents for Hang Seng GLDs. We do not accept any responsibility for information on such third party’s website.

We will notify you by notice in English and Chinese as soon as practicable if, during the investment period of your Hang Seng GLD, there is: (i) a material change in content of gold which results in the early termination of the Hang Seng GLD or (ii) any material change to London Bullion Market Association which is likely to have a material impact on the prevailing gold prices.

## **How to determine the maturity receivable under a Hang Seng GLD?**

What you receive under your Hang Seng GLD at maturity will depend on the final fixing price of gold in comparison with the strike price.

The strike price is a price quoted on a per gold unit basis in the specified currency of your Hang Seng GLD which is expressed in the relevant term sheet as a fixed price or a range. In the latter case, the exact strike price will be determined by us once your Hang Seng GLD order is accepted by us.

The final fixing price is a price quoted on a per gold unit basis in the specified currency determined at the valuation time on the final fixing date.

For Hang Seng GLDs (with Cash as the Initial Investment), if:

- (i) the final fixing price of gold is at or above the strike price, the put option over gold against the specified currency will lapse and you will receive a cash amount in the specified currency equal to the sum of the initial investment and the distribution amount (i.e. coupon payment for your investment in Hang Seng GLDs) as the maturity receivable on the maturity date; or
- (ii) the final fixing price of gold is below the strike price, the put option over gold against the specified currency will be exercised by us, and upon exercise of such put option on the final fixing date:
  - (I) you are obliged to use the sum of the initial investment and distribution amount (i.e. coupon payment for your investment in Hang Seng GLDs) in cash to buy from us a particular quantity of gold (as quoted on a per troy ounce basis) at the strike price, which will then be converted into paper gold units (as quoted on a per 0.1 troy ounce basis) in the form of paper gold corresponding to such quantity of gold at the conversion ratio of 10; and
  - (II) such quantity of paper gold will be credited to you as the maturity receivable on the maturity date.

**In case (ii) above, you are not entitled to demand delivery of any physical gold as the maturity receivable.**

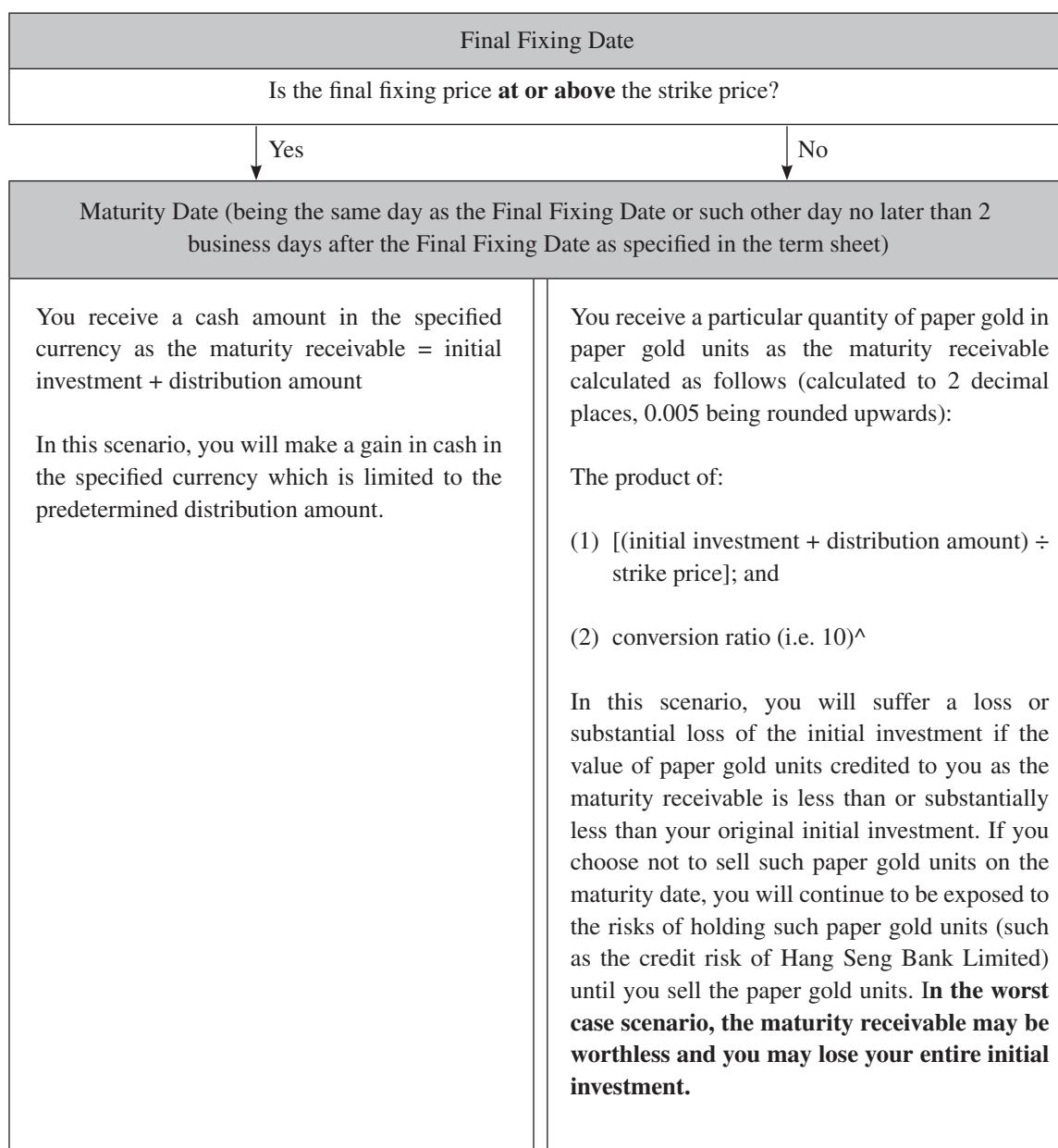
For Hang Seng GLDs (with Paper Gold as the Initial Investment), if:

- (i) the final fixing price of gold is at or below the strike price, the call option over gold against the specified currency will lapse and you will receive a particular quantity of paper gold in paper gold units equal to the sum of the initial investment and the distribution amount in paper gold units as the maturity receivable on the maturity date; or
- (ii) the final fixing price of gold is above the strike price, the call option over gold against the specified currency will be exercised by us, and upon exercise of such call option on the final fixing date:
  - (I) a particular quantity of paper gold (as quoted on a per 0.1 troy ounce basis) equal to the sum of the initial investment and distribution amount in paper gold units will be converted into the corresponding quantity of gold (as quoted on a per troy ounce basis) at the conversion ratio of 10. Such particular quantity of gold will then be sold to us at the strike price; and
  - (II) a cash amount in the specified currency equal to the cash proceeds of selling such particular quantity of gold at the strike price will be paid to you as the maturity receivable on the maturity date.

**In case (i) above, you are not entitled to demand delivery of any physical gold as the maturity receivable.**

See the charts on the following pages for the steps involved in determining and calculating the maturity receivable under a Hang Seng GLD.

(a) For Hang Seng GLDs (with Cash as the Initial Investment)



<sup>^</sup> The strike price is quoted on a per gold unit basis and the amount calculated in accordance with part (1) of the formula represents a fixed number of gold units. As gold is quoted on a per troy ounce basis while paper gold is quoted on a 0.1 troy ounce basis, such fixed number of gold units will therefore be converted into the corresponding paper gold units at the conversion ratio of 10 as the maturity receivable.

(b) For Hang Seng GLDs (with Paper Gold as the Initial Investment)



<sup>^</sup> The sum of the initial investment and distribution amount is a fixed number of paper gold units but the strike price is quoted on a per gold unit basis. As gold is quoted on a per troy ounce basis while paper gold is quoted on a 0.1 troy ounce basis, such fixed number of paper gold units will therefore be converted into the corresponding gold units at the conversion ratio of 10.

\* Save in the case of JPY, calculated to the nearest whole JPY, 0.5 being rounded upwards.

## **How do we obtain the gold prices for the purpose of determining the maturity receivable under a Hang Seng GLD?**

For the purpose of determining the final fixing price of gold for a Hang Seng GLD on the final fixing date, we will record the gold mid-price quoted in the specified currency as displayed on the price source (being the designated Bloomberg page “BFIX”) at the valuation time on the final fixing date and take it as the “final fixing price”. The final fixing date will be a date scheduled to be on or within 2 business days before the maturity date of your Hang Seng GLD. The gold prices quoted in the specified currency as displayed on the price source take into consideration of the prevailing USD gold prices and, if the specified currency is not USD, the prevailing exchange rate between USD and the specified currency quoted by market dealers. We will publish the final fixing price in our website (currently at [www.hangseng.com/gld\\_goldprices](http://www.hangseng.com/gld_goldprices)) as soon as practicable after such price is displayed on the price source.

Gold prices are customarily quoted in USD in the international bullion market, whereas the final fixing price is quoted in the specified currency. If the specified currency of a Hang Seng GLD is not USD, your potential gain/loss under your Hang Seng GLD may be adversely affected by the prevailing exchange rate between USD and the specified currency even if the prevailing USD gold price remains stable. See “What you receive at maturity may also be subject to exchange rate risk” under the risk factors section for more details.

## **What is paper gold as recorded in paper gold grain account?**

The allocation of paper gold in your paper gold grain account is notional and is for the sole purpose of determining the cash value in HKD of your investment in such account. You do not have any rights, ownership and possession of any physical gold in such account. The paper gold units credited to your paper gold grain account constitute our general unsecured and unsubordinated contractual obligations under the paper gold grain account. Such paper gold units are traded in HKD only. That means you may only sell or buy paper gold units under a paper gold grain account in HKD at such HKD price as quoted by us.

The price at which we may buy from you (“**Bank’s buying price**”) or sell to you (“**Bank’s selling price**”) one paper gold unit (as quoted on a per 0.1 troy ounce basis) is quoted by us taking into account the prevailing local and world market prices for gold (as quoted by market dealers on a per troy ounce basis), the prevailing exchange rate between USD and HKD, the conversion of one troy ounce of gold into one paper gold unit at the conversion ratio of 10 and our profit margin. There is a spread between the Bank’s buying price and the Bank’s selling price quoted by us at the same time, with the Bank’s buying price lower than the Bank’s selling price.

Information about the prevailing paper gold prices is only available upon request. You can make enquiries about the prevailing paper gold price through our branches and phone banking centre.

Accordingly, if the maturity receivable is determined to be a particular quantity of paper gold, you will be exposed to movement in HKD paper gold prices quoted from and after the final fixing date. Your realised gain/loss will depend on the HKD paper gold price at which you sell such paper gold units. Such HKD paper gold prices may be different from the prevailing gold prices customarily quoted in USD in the international bullion market. Changes in the USD gold prices may not lead to corresponding change in the HKD paper gold prices. Such HKD paper gold prices may be adversely affected by (i) a change in the prevailing exchange rate between USD and HKD and/or the prevailing USD gold price and (ii) our profit margins incorporated therein.

In addition, you will receive the proceeds in HKD upon selling such paper gold units. You will be exposed to fluctuations in the prevailing exchange rate between the specified currency and HKD if you convert such HKD proceeds back to the specified currency.

The offering of paper gold is authorised by the SFC under Part IV of the SFO. Please refer to the relevant paper gold offering documents for further information and risk disclosure in relation to paper gold.

## Glossary

### A. Subscription of Hang Seng GLDs

|                    |   |
|--------------------|---|
| Offeror            | Hang Seng Bank Limited. The key responsibility of the offeror is to offer Hang Seng GLDs.   |
| Product Arranger   | Hang Seng Bank Limited. The key responsibility of the product arranger is to perform the administrative functions in the offer of Hang Seng GLDs.   |
| Initial investment | <p>The initial investment is the amount invested by you in a Hang Seng GLD, which is subject to the minimum initial investment as specified in the term sheet.</p> <p>In the case of a Hang Seng GLD (with Cash as the Initial Investment), the initial investment is a specified cash amount in the specified currency.</p> <p>In the case of a Hang Seng GLD (with Paper Gold as the Initial Investment), the initial investment is a number of paper gold units.</p> <p>The initial investment will be agreed with you before you place a Hang Seng GLD order and confirmed in the confirmation.</p> <p>Once you place a Hang Seng GLD order with us (as the intermediary) on any business day, an amount equal to the initial investment will be frozen in your designated account or designated paper gold grain account (as the case may be). If your Hang Seng GLD order is accepted by us on such date as you place your order, such date will become the order date. The initial investment will be deducted from your designated account or designated paper gold grain account (as the case may be) on the start date.</p> |
| Specified currency | The specified currency is the currency in which any cash deposit and/or payment under this product is made and the strike price and the final fixing price are quoted. The specified currency at your choice can be Renminbi (“ <b>RMB</b> ”) or any major currencies which are non-restricted and freely convertible such as HKD, AUD, CAD, EUR, JPY, NZD, GBP, CHF or USD as specified in the term sheet.   |
| Gold               | It means Loco London Gold (which must have a fineness of not less than 99.5%) as specified by the London Bullion Market Association (or its successor).   |
| Gold unit          | This is the unit in which gold is denominated, with each gold unit equal to 1 troy ounce of gold.   |
| Paper gold         | It means a notional amount of gold (as further described in the term “gold” above) credited to your paper gold grain account maintained with us, the offering of which is authorised by the SFC under Part IV of the SFO. Please refer to the latest paper gold offering documents for further details.   |
| Paper gold unit    | This is the unit in which paper gold is denominated, with each paper gold unit equal to 0.1 gold unit (i.e. 0.1 troy ounce of gold). As gold is quoted on a per troy ounce basis while paper gold is quoted on a 0.1 troy ounce basis, a fixed number of gold units will be converted into the corresponding paper gold units at the conversion ratio of 10 in making calculation of the maturity receivable.   |



|                   |  |
|-------------------|--|
| Paper gold price  | <p>The paper gold price is the price per paper gold unit quoted in HKD at which the paper gold units credited to your paper gold grain account are traded. See “What is paper gold as recorded in paper gold grain account?” on page 31 of this principal brochure for more details as to how we determine the paper gold price. You can make enquiries about the prevailing paper gold price through our branches and phone banking centre. If the maturity receivable is determined to be a particular quantity of paper gold in paper gold units, you will be exposed to movement in paper gold prices (rather than the gold prices) from and after the final fixing date.</p>  |
| Deposit tenor     | <p>The deposit tenor is the number of calendar days in the period from (and including) the start date to (but excluding) the scheduled maturity date and it will be specified in the relevant term sheet.</p>  |
| Investment period | <p>The investment period is the number of calendar days from (and including) the order date to (and including) the scheduled maturity date. As the investment period of all Hang Seng GLDs are 6 months or less, post-sale cooling-off period arrangement and market making arrangement will not be applicable to Hang Seng GLDs.</p>  |
| Order date        | <p>The order date is the date on which your Hang Seng GLD order is placed with us (as the intermediary) and accepted by us. All the terms of the Hang Seng GLD are finalised once your Hang Seng GLD order is accepted.</p> <p>The order date will be set out in the term sheet.</p>   |
| Start date        | <p>The start date is the date on which we will deduct the initial investment from your designated account or designated paper gold grain account (as the case may be). The distribution amount will start to accrue from the start date.</p> <p>The start date will be specified in the term sheet. Under normal circumstances, the start date is the same day as the order date, but may be extended up to 5 business days after the order date upon your request and accepted by us.</p>   |
| Strike price      | <p>The strike price is quoted on a per gold unit basis in the specified currency (rounded to 2 decimal places, 0.005 being rounded downwards). The strike price will be used to compare with the final fixing price in determining the maturity receivable on the final fixing date.</p> <p>The strike price will be expressed in the relevant term sheet as either: (i) a fixed price; or (ii) a range of prices (the upper and lower limits will not exceed the mid-point of such price range by 2.5% in percentage terms).</p> <p>In case (ii), the exact strike price will be determined by us once your Hang Seng GLD order is accepted by us and such exact strike price will fall within such range. In that case, you will not know the exact strike price when you place a Hang Seng GLD order and such exact strike price will be set out in a confirmation to be sent to you within 2 business days after the order date.</p> <p>In case (ii), the exact strike price will be determined by us in our sole and absolute discretion acting in good faith and in a commercially reasonable manner, taking into account various factors, including but not limited to the prevailing market condition, the annualised distribution rate, the market price of gold and volatility of the gold price, the creditworthiness of Hang Seng Bank Limited, the deposit tenor and hedging costs.</p> |

If the strike price is expressed as a range of prices, the annualised distribution rate will be expressed as a fixed percentage. If the strike price is expressed as a fixed price, the annualised distribution rate will be expressed as such percentage to be determined by us once your Hang Seng GLD order is accepted by us which will not be lower than the floor percentage of 1% per annum.

In both cases, the strike price is always set:

- (i) for Hang Seng GLD (with Cash as the Initial Investment), at or below the prevailing market price of gold quoted in the specified currency at the time you place an order; or
- (ii) for Hang Seng GLD (with Paper Gold as the Initial Investment), at or above the prevailing market price of gold quoted in the specified currency at the time you place an order.

## B. Maturity Receivable

Final fixing date

If the Hang Seng GLD is not early terminated, the final fixing date is the date when the final fixing price is recorded from the price source or otherwise determined by us (if the final fixing date is a disrupted day) and the maturity receivable is determined. The date will be specified in the relevant term sheet, and if such date is not a commodity business day, the final fixing date shall be the following commodity business day.

Final fixing price

The final fixing price is the mid-price per gold unit quoted in the specified currency as displayed on the price source at the valuation time on the final fixing date (rounded to 2 decimal places, 0.005 being rounded downwards). We will publish the final fixing price in the specified currency applicable to your Hang Seng GLD in our website (currently at [www.hangseng.com/gld\\_goldprices](http://www.hangseng.com/gld_goldprices)) as soon as practicable after such price is displayed on the price source.

If the final fixing price cannot be determined due to the reason that the final fixing date is a disrupted day, we shall determine in good faith and in a commercially reasonable manner the final fixing price on such date (based on factors including but not limited to the prevailing USD gold price and, if the specified currency is not USD, the prevailing exchange rate between USD and the specified currency quoted by an independent third party broker available on an independent third party price source and the prevailing market conditions) notwithstanding the fact that such date is a disrupted day. For the avoidance of doubt, the final fixing date will not be postponed if such date is a disrupted day.

A “**disrupted day**” is a commodity business day on which a market disruption event (such as the failure of the price source to publish the final fixing price, the temporary or permanent discontinuance or unavailability of the price source or any material suspension of or limitation on trading in gold) has occurred.

Price source

The price source is such source which displays the final fixing price, being the Bloomberg page “BFIX” under the heading as specified in the relevant term sheet (for example, “XAUUSD” if the specified currency is USD or “XAUCNH” if the specified currency is RMB) or such replacement webpage which displays such information.

Valuation time

The valuation time, in respect of a commodity business day, is 10:00 (Hong Kong time) on that commodity business day or such other time as specified in the term sheet.

Maturity receivable

If the Hang Seng GLD is not early terminated, you will receive on the maturity date, in respect of each Hang Seng GLD,

- (i) in the case of a Hang Seng GLD (with Cash as the Initial Investment):
  - (a) if the final fixing price is **at or above** the strike price, a cash amount in the specified currency calculated by us as equal to the sum of the initial investment and the distribution amount; or
  - (b) if the final fixing price is **below** the strike price, a particular quantity of paper gold in paper gold units calculated by us as follows (calculated to 2 decimal places, 0.005 being rounded upwards):

The product of:

- (1)  $[(\text{initial investment} + \text{distribution amount}) \div \text{strike price}]$ ; and
- (2) conversion ratio (i.e. 10)<sup>^</sup>

<sup>^</sup> The strike price is quoted on a per gold unit basis and the amount calculated in accordance with part (1) of the formula represents a fixed number of gold units. As gold is quoted on a per troy ounce basis while paper gold is quoted on a 0.1 troy ounce basis, such fixed number of gold units will therefore be converted into the corresponding paper gold units at the conversion ratio of 10 as the maturity receivable.

or

- (ii) in the case of a Hang Seng GLD (with Paper Gold as the Initial Investment):
  - (a) if the final fixing price is **at or below** the strike price, a particular quantity of paper gold in paper gold units calculated by us as equal to the sum of the initial investment and the distribution amount; or
  - (b) if the final fixing price is **above** the strike price, a cash amount in the specified currency calculated by us as follows (calculated to 2 decimal places, 0.005 being rounded upwards, save in the case of JPY, calculated to the nearest whole JPY, 0.5 being rounded upwards):

The product of:

- (1)  $[(\text{initial investment} + \text{distribution amount}) \div \text{conversion ratio (i.e. 10)}^{\wedge}]$ ; and
- (2) strike price

- ^ The sum of the initial investment and distribution amount is a fixed number of paper gold units but the strike price is quoted on a per gold unit basis. As gold is quoted on a per troy ounce basis while paper gold is quoted on a 0.1 troy ounce basis, such fixed number of paper gold units will therefore be converted into the corresponding gold units at the conversion ratio of 10.

Distribution amount

The distribution amount is a coupon payment for your investment in Hang Seng GLDs. Subject to any early termination of the Hang Seng GLD, the distribution amount for a Hang Seng GLD is calculated as follows (calculated to 2 decimal places, 0.005 being rounded upwards, save in the case of JPY, calculated to the nearest whole JPY, 0.5 being rounded upwards):

$$\text{initial investment} \times \text{actual distribution rate}$$

Actual distribution rate

The actual distribution rate for the deposit tenor of a Hang Seng GLD is calculated as follows (calculated to 6 decimal places, 0.0000005 being rounded downwards):

$$\text{annualised distribution rate} \times \frac{\text{deposit tenor}}{\text{day count}}$$

where the “**day count**” is:

- (i) in the case of a Hang Seng GLD (with Cash as the Initial Investment):
  - (a) 365 (where the deposit tenor does not fall on a leap year) or 366 (where the deposit tenor falls on a leap year) if the specified currency is HKD;
  - (b) 365 if the specified currency is GBP;
  - (c) 360 if the specified currency is USD, EUR, AUD, CAD, NZD, CHF, RMB or JPY; or
  - (d) such number as specified in the relevant term sheet if the specified currency is any other currency; or
- (ii) in the case of a Hang Seng GLD (with Paper Gold as the Initial Investment), 360.

Annualised distribution rate

The annualised distribution rate is used to calculate the actual distribution rate and the corresponding distribution amount. It will be specified in the relevant term sheet as either: (i) a fixed percentage; or (ii) such percentage to be determined by us once your Hang Seng GLD order is accepted by us which is not lower than the lowest annualised distribution rate offered by us (“**floor percentage**”) of 1% per annum. In case (ii), you will not know the exact annualised distribution rate when you place a Hang Seng GLD order and such exact annualised distribution rate will be set out in a confirmation to be sent to you within 2 business days after the order date.

It is expressed as an annualised format on the hypothetical assumption that the Hang Seng GLD can be rolled over on the same terms for a period equal to the day count (see “Actual distribution rate” above for further details). It does not reflect the actual distribution rate for the deposit tenor of the Hang Seng GLD. You should not rely on the annualised distribution rate as an indication of the expected return for the Hang Seng GLD.

In case (ii), the exact annualised distribution rate will be determined by us in our sole and absolute discretion acting in good faith and in a commercially reasonable manner, taking into account various factors, including but not limited to the prevailing market condition, the strike price, the market price of gold and volatility of the gold price, the creditworthiness of Hang Seng Bank Limited, the deposit tenor and hedging costs.

If the annualised distribution rate is expressed as a fixed percentage, the strike price will be expressed as a range of prices. If the annualised distribution rate is expressed as such percentage to be determined by us once your Hang Seng GLD order is accepted by us which will not be lower than the floor percentage of 1% per annum, the strike price will be expressed as a fixed price.

Although there are no explicit charges in respect of the Hang Seng GLDs, transaction costs, any fees and charges incurred by us (whether to enter into linked investments or hedging agreements or for operational or administrative purposes) and our profit margins, if any, are already indirectly contained in and subsumed into the calculation of the annualised distribution rate and the strike price.

#### Maturity date

The maturity date is the date (which is a business day) when you will receive the maturity receivable under the Hang Seng GLD. If it falls on a day which is not a business day, it will be postponed to the following business day. The maturity date is the same day as the final fixing date or such other day no later than 2 business days after the final fixing date as specified in the term sheet. The scheduled maturity date is the scheduled date as specified in the relevant term sheet on which the maturity date is expected to fall.

If the specified currency is RMB, payments under such Hang Seng GLDs will be postponed and may be made in a HKD equivalent amount if an RMB disruption event occurs on a scheduled date of payment. Please see “What happens if an RMB disruption event occurs on a scheduled date of payment?” below for details.

#### Business day

A business day is a day (excluding Saturdays, Sundays and public holidays) on which commercial banks are open for business in Hong Kong and: (i) Beijing (if the specified currency is RMB); or (ii) the place in which the principal financial centre of the specified currency is located (if the specified currency is not HKD or RMB).

#### Commodity business day

A commodity business day is a day on which the price source is scheduled to publish the price of gold.

### **Are there any situations where Hang Seng GLDs may be terminated before maturity?**

Upon an occurrence on or after the order date but on or before the final fixing date of certain termination events as set out in condition 5 in Appendix A to this principal brochure, such as change in law, closure of your paper gold grain account, cessation of SFC's authorisation for public offering of paper gold, material change in content of gold or hedging disruption, Hang Seng GLDs will be terminated prior to the final fixing date at the early termination amount as determined by us (in our sole and absolute discretion acting in good faith and in a commercially reasonable manner) to be the fair value of Hang Seng GLDs as of the date of termination. We will be responsible for the calculation of the early termination amount, for the purpose of which, we will take into account factors such as the prevailing market conditions including (without limitation) the value of the relevant embedded derivatives, market interest rate movements, volatility of the gold price, the strike price, the remaining deposit tenor of Hang Seng GLDs, any accrued distribution amount, the creditworthiness of Hang Seng Bank Limited and our unwind cost on any hedging arrangements relating to the Hang Seng GLDs, all as determined by us acting in good faith and in a commercially reasonable manner. **Such early termination amount might be less or substantially less than the amount that you originally invested.**

If Hang Seng GLDs are early terminated, we will notify you and the SFC by notice no later than 3 business days after the early termination is determined and specify in the notice the occurrence of the relevant event and the early termination date and the early termination amount. You will receive the early termination amount no later than the third business day after the effective date of such early termination. Our obligations under the GLD shall be satisfied in full upon payment of the early termination amount and you are not entitled to receive the maturity receivable.

### **Can the dates referred to above be subject to adjustments?**

The final fixing date will be determined on the basis of the commodity business days and will be postponed if the relevant date is not a commodity business day. Such postponement will in turn result in postponement to the maturity date. No compensation will be made by us for such postponement.

The scheduled date for payment or credit of the maturity receivable (i.e. maturity date) must be a business day. If the maturity date falls on a day which is not a business day, it will be postponed to the following business day. We will not pay any amount for the delay in payment or credit of the maturity receivable (other than interest accrued on the maturity receivable for the period from and including the scheduled maturity date to but excluding the date on which the maturity receivable is paid or credited at the then prevailing rate of interest applicable (if any) to your designated account (if the maturity receivable is in the form of cash) or designated paper gold grain account (if the maturity receivable is in the form of paper gold) to which the maturity receivable is credited). The paper gold grain account is currently non-interest bearing.

If the specified currency is RMB, payments under such Hang Seng GLDs will be postponed and may be made in a HKD equivalent amount if an RMB disruption event occurs on a scheduled date of payment. Please see "What happens if an RMB disruption event occurs on a scheduled date of payment?" below for details.

### **What happens if an RMB disruption event occurs on a scheduled date of payment?**

In the case where the specified currency is RMB and RMB is payable by you, upon the occurrence of an RMB disruption event (i.e. an event that, as determined by us in our sole and absolute discretion acting in good faith and in a commercially reasonable manner, makes it impossible for us (a) to obtain a firm quote of a price quoted in USD against RMB in respect of any amount due and payable in RMB under the Hang Seng GLDs in the RMB exchange market in Hong Kong (except due to issues relating to our creditworthiness), (b) to convert any amount due and payable in RMB under the Hang Seng GLDs in the RMB exchange market in Hong Kong (except due to issues relating to our creditworthiness) and/or (c) to transfer RMB between accounts inside Hong Kong) as provided in condition 12 of the terms and conditions as set out in Appendix A to this principal brochure on a scheduled date of payment in cash (being the maturity date or the date on which you receive the early termination amount), such payment will be postponed to 3 business days after the date on which the RMB disruption event ceases to exist, unless the RMB disruption event continues to exist for 10 business days after such original scheduled date of payment. We will issue notices on such original scheduled date of payment to you specifying that such payment will be postponed.

If the RMB disruption event continues to exist for 10 business days after such original scheduled date of payment, in that case, payment will be made in an amount in HKD determined by us acting in good faith and in a commercially reasonable manner by converting the original amount payable in RMB into HKD using the offshore RMB exchange rate against HKD as of such tenth business day based on (i) the foreign exchange rate of HKD per one USD as at 16:00 (Hong Kong time) on such tenth business day as displayed on Reuters page <HKD=> divided by (ii) the offshore foreign exchange rate of RMB per one USD as at 16:00 (Hong Kong time) on such tenth business day as displayed on Reuters page <CNH=> (or if such rate is not available, the exchange rate as determined by us in our sole and absolute discretion acting in good faith and in a commercially reasonable manner). We will notify you by notice as soon as practicable after such HKD equivalent amount is determined but no later than the second business day after such tenth business day. You will receive such HKD equivalent amount no later than the third business day after such tenth business day.



## MORE INFORMATION ABOUT HANG SENG GLDS

### How can I apply for the Hang Seng GLDs?

If you would like to apply for Hang Seng GLDs, you can contact us (as the intermediary) to enquire about Hang Seng GLDs.

You must have a paper gold grain account and an integrated account with us (as the intermediary) in order to apply to invest in Hang Seng GLDs.

You may apply for a Hang Seng GLD by placing an order with us (as the intermediary) on any business day. Once you place an order with us (as the intermediary), you will be committed to invest in the Hang Seng GLD and your initial investment will be frozen from your designated account or designated paper gold grain account (as the case may be). As such, please ensure that you have adequate cash amount in the specified currency in your designated account or adequate number of paper gold units in your designated paper gold grain account (as the case may be) to be used as your initial investment. We will either accept or reject your order on the same date as you place your order. If your Hang Seng GLD order is accepted by us on such date as you place your order, such date will become the order date. The initial investment will be deducted from your designated account or designated paper gold grain account (as the case may be) on the start date of the Hang Seng GLD. If your Hang Seng GLD order is rejected by us on such date as you place your order, the initial investment frozen by us will be released in full to you within 1 business day after such date.

If your order is accepted by us on the order date, a confirmation which sets out all the finalised terms will be sent to you within 2 business days after the order date.

If the relevant term sheet specifies that internet banking application is applicable, you may also buy Hang Seng GLDs by making an internet banking application. Please ask us for details regarding the availability and arrangements of such internet banking application.

### Do you need an RMB cash account and a HKD cash account if you purchase our Hang Seng GLDs with RMB as the specified currency?

If you wish to purchase our Hang Seng GLDs with RMB as the specified currency, you must have, or open, an RMB cash account with us for settling any RMB payment in respect of such Hang Seng GLDs from or to you. You should be aware of the lead time required for opening the RMB cash account as we may not be able to process your request immediately. You should check with us for the account opening procedures as well as terms and conditions of the RMB cash account. There may be additional rules, regulations and restrictions under contemplation or to be issued by the relevant Hong Kong or PRC authorities that may be relevant to your investment in such Hang Seng GLDs. You should check with us for updates and details.

In addition, you must have, or open, a HKD cash account with us as payments under such Hang Seng GLDs may be made in a HKD equivalent amount if an RMB disruption event occurs.

### No post-sale cooling-off period and market making arrangement

Post-sale cooling-off period arrangement and market making arrangement will not be applicable to Hang Seng GLDs because the investment period of all Hang Seng GLDs are 6 months or less.

### Who are the Hang Seng GLDs designed for?

*Hang Seng GLDs (with Cash as the Initial Investment) are designed for:*

- (a) investors who take a stable or moderately bullish view of the gold price for the deposit tenor of the Hang Seng GLDs;
- (b) investors who have experience in structured products;
- (c) investors who look for an opportunity to have a potential gain in the form of a cash amount in the specified currency (which is limited to the pre-determined distribution amount); and

- (d) investors who understand the risk that if the maturity receivable is determined to be a particular quantity of paper gold in paper gold units, they will suffer a loss or substantial loss of the initial investment if the value of paper gold units credited to them as the maturity receivable is less than or substantially less than their original initial investment, and they are exposed to the risks of holding such paper gold units (See “No physical delivery of gold” under the risk factors section for more details) until they sell the paper gold units.

*Hang Seng GLDs (with Paper Gold as the Initial Investment) are designed for:*

- (a) investors who take a stable view of the gold price for the deposit tenor of the Hang Seng GLDs;
- (b) investors who have experience in structured products;
- (c) investors who look for an opportunity to either:
  - (i) continue to hold paper gold and have a potential gain in the form of increased number of paper gold units (which is limited to the pre-determined distribution amount). Please see the risk set out in (d)(i) below; or
  - (ii) convert paper gold to cash and have a potential gain in the form of cash (which is limited to the difference between the maturity receivable in the form of a cash amount in the specified currency and the value of the initial investment in paper gold (as determined at the time the Hang Seng GLD order is placed in the specified currency)). Please see the risk set out in (d)(ii) below; and
- (d) investors who understand the risks that:
  - (i) if the maturity receivable is determined to be a particular quantity of paper gold in paper gold units, they will suffer a loss or substantial loss if the prevailing value of the paper gold units credited to you as the maturity receivable is less than or substantially less than the value of their original initial investment at the time the order is placed, and they are exposed to the risks of holding such paper gold units (See “No physical delivery of gold” under the risk factors section for more details) until they sell the paper gold units; or
  - (ii) if the maturity receivable is determined to be a cash payment in the specified currency, they are obliged to sell a particular quantity of gold (being converted from the corresponding quantity of paper gold in paper gold units equal to the sum of the initial investment and the distribution amount at the conversion ratio) at the strike price and lose the opportunity cost of selling such quantity of gold at the prevailing gold price which is higher than the strike price. If you wish to buy back such number of paper gold units equal to the initial investment in this scenario after maturity, you may need to incur extra cost in excess of the cash amount you received as the maturity receivable, because the prevailing gold price at or after maturity may be higher, or substantially higher, than the strike price.

**Who are the Hang Seng GLDs not designed for?**

*Hang Seng GLDs (with Cash or Paper Gold as the Initial Investment) are not designed for:*

- (a) investors who are inexperienced with no knowledge in derivative instruments;
- (b) investors who do not want to take the credit risk of Hang Seng Bank Limited;
- (c) investors who do not want to invest for the whole deposit tenor of Hang Seng GLDs; or
- (d) investors who do not want to take risk on any part of their capital.

## Comparison with conventional time deposit

Unlike an investment in a conventional time deposit which is protected by the Deposit Protection Scheme in Hong Kong, Hang Seng GLDs are structured investment products which are not protected by the Deposit Protection Scheme in Hong Kong. Depending on the final fixing price of gold, the potential gain or loss under Hang Seng GLDs (if any) may be higher or lower (or even substantially lower) than the interest rate payable under a conventional time deposit.

## How will I know what the maturity receivable will be?

You will be notified by way of a notice to be sent to you within 2 business days after the final fixing date.

## What is included in the documentation for Hang Seng GLDs?

### *Offering documents*

The following documents constitute the “offering documents” of Hang Seng GLDs. You should read all of these documents carefully before you decide whether to buy Hang Seng GLDs.

- (i) *Financial disclosure document*: The financial disclosure document and the addendum thereto (if any) as specified in the relevant term sheet contains the latest public financial information about us, including the audited consolidated financial statements and unaudited condensed consolidated financial statements (if any).
- (ii) *Principal brochure*: This principal brochure and the addendum thereto (if any) as specified in the relevant term sheet contains information about:
  - the general information about us (as the Offeror and the Product Arranger);
  - Hong Kong and U.S. taxation issues in relation to Hang Seng GLDs in general;
  - the general procedure for investing Hang Seng GLDs;
  - the key facts statements of Hang Seng GLDs;
  - the features and key elements of Hang Seng GLDs;
  - product risks in relation to Hang Seng GLDs;
  - the terms and conditions that apply to Hang Seng GLDs;
  - form of the term sheet for Hang Seng GLDs;
  - form of the confirmation for Hang Seng GLDs; and
  - scenario analysis of Hang Seng GLDs.
- (iii) *Term sheet*: The relevant term sheet sets out the specific terms that are applicable to a Hang Seng GLD that you wish to apply for. The form of the term sheet is set out in Appendix B to this principal brochure.

In respect of any Hang Seng GLD, the offering documents can be obtained free of charge through the following methods of distribution as specified in the relevant term sheet:

| <b>Offering documents</b>  | <b>Method of distribution</b>  |
|--|--|
| <ul style="list-style-type: none"> <li>• The financial disclosure document (including any addenda); and</li> <li>• This principal brochure (including any addenda).</li> </ul> | <p>(i) Printed copies from any of our designated branches in Hong Kong;</p> <p>(ii) CD-ROM copies (if any) from any of our designated branches in Hong Kong (whether or not CD-ROM copies are being made available for any particular Hang Seng GLD will be specified in the relevant term sheet); and</p> <p>(iii) Electronic copies at our website (www.hangseng.com) (whether or not electronic copies are being made available for any particular Hang Seng GLD will be specified in the applicable term sheet).</p> |
| The relevant term sheets   | <p>(i) Printed copies from any of our designated branches in Hong Kong; and</p> <p>(ii) Electronic copies at our website (www.hangseng.com) (whether or not electronic copies are being made available for any particular Hang Seng GLD will be specified in the applicable term sheet).</p>   |

The offer of each Hang Seng GLD is made only on the basis of the financial disclosure document, this principal brochure (including any addendum to these documents as specified in the relevant term sheet) and the relevant term sheet.

Except for the marketing materials issued by us as the Offeror (which, although do not form part of the offering documents for Hang Seng GLDs, contain information about Hang Seng GLDs), we have not authorised anyone to give you any information about Hang Seng GLDs other than the information in the financial disclosure document, this principal brochure (including any addendum to these documents as specified in the relevant term sheet) and the relevant term sheet.

### ***Legal documents***

The following documents set out the legally binding terms and conditions of Hang Seng GLDs:

- (i) Terms and Conditions of Hang Seng GLDs (Appendix A to this principal brochure): The terms and conditions that are applicable to all Hang Seng GLDs are set out in Appendix A.
- (ii) Confirmation: The terms and conditions as set out in Appendix A may be amended, varied and/or supplemented by the specific terms and conditions that are applicable to a Hang Seng GLD. These specific terms and conditions will be set out in the relevant confirmation which reflects the specific terms as stated in the relevant term sheet. We have set out in Appendix C to this principal brochure a standard format of the confirmation for Hang Seng GLDs. The confirmation applicable to your Hang Seng GLD will be sent to you within 2 business days after the order date.

### **Who takes responsibility for the offering documents of Hang Seng GLDs?**

We (as the Offeror and the Product Arranger) accept full responsibility for the contents of, and the completeness and accuracy of the information contained in the offering documents for Hang Seng GLDs (as further described on page 42 of this principal brochure) and confirm, having made all reasonable enquiries, that to the best of our knowledge and belief there is no untrue or misleading statement or other facts the omission of which would make any statement therein untrue or misleading.

Information included on a third party's website referred to in this principal brochure does not form part of this principal brochure. We do not accept any responsibility for information included on third parties' websites.

Our financial disclosure document (taken together with this principal brochure) is accurate at the date of this principal brochure. You must not assume, however, that information in the financial disclosure document or this principal brochure is accurate at any time after the date of this principal brochure. The relevant term sheet will tell you if an addendum to our financial disclosure document or this principal brochure has been published.

### **Where can I read copies of the legal documentation for the Hang Seng GLDs?**

While any of Hang Seng GLDs remains outstanding, you can read copies of the following documents free of charge:

- our memorandum and articles of association (in English language version only);
- the financial disclosure document and any updating addendum (both English and Chinese languages versions in one document);
- this principal brochure and any updating addendum (both English and Chinese languages versions in one document);
- (upon your request as investor of a Hang Seng GLD) the relevant term sheet for that Hang Seng GLD (both English and Chinese languages versions in one document);
- (upon your request as investor of a Hang Seng GLD) the relevant confirmation for that Hang Seng GLD (both English and Chinese languages versions in one document);
- our most recently published audited consolidated financial statements and unaudited condensed consolidated financial statements (both English and Chinese languages versions);
- certified true copy of a letter from our auditors consenting to the inclusion of their auditor's report(s) in the financial disclosure document (in English language version only); and
- any notices given by us under the conditions of Hang Seng GLDs (both English and Chinese languages versions)

by going to our office at 83 Des Voeux Road Central, Hong Kong. This office is open only during normal business hours and not on Saturdays, Sundays or public holidays.

A reasonable fee will be charged if you want to take photocopies of any of the documents whilst they are on display.

### **Is this a prospectus?**

This principal brochure, the financial disclosure document (including any addendum to these documents) and any term sheet do not constitute a prospectus under the Companies (Winding Up and Miscellaneous Provisions) Ordinance of Hong Kong (Cap. 32, Laws of Hong Kong).

### **Taxation**

#### ***Hong Kong taxation***

The summary below regarding Hong Kong taxation is based on the laws in force as at the date of this principal brochure and is subject to any changes in law occurring after such date. The summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to invest in Hang Seng GLDs. The summary is not complete and we are not giving you any tax advice. You should consult your own tax adviser about the tax consequences of investing in Hang Seng GLDs, particularly if you are subject to special tax rules.

### *Withholding tax*

We are not required under current law to make any withholding on account of Hong Kong tax from any payments in respect of Hang Seng GLDs.

### *Capital gains tax*

No capital gains tax is payable in Hong Kong on any capital gains arising from the termination of Hang Seng GLDs.

### *Profits tax*

No profits tax is payable in respect of any gains arising from the investment in Hang Seng GLDs, unless such gains are arising in or derived from the trading activities of a trade, profession or business carried on in Hong Kong.

### *Stamp duty*

Hang Seng GLDs are not expected to be subject to Hong Kong stamp duty or bearer instrument duty upon their execution.

## ***United States taxation***

### *U.S. Foreign Account Tax Compliance Act (FATCA) withholding tax*

Legislation known as the United States Hiring Incentives to Restore Employment Act (the “**HIRE Act**”), which included provisions referred to as the Foreign Account Tax Compliance Act (“**FATCA**”), was passed in the United States on 18 March 2010. Under the HIRE Act and FATCA, we may be required to withhold moneys on account of U.S. federal tax on all, or a portion of:

- (a) any payments made in respect of the Hang Seng GLDs that are linked to the value of, or dividends on, stock issued by an entity that is treated as a U.S. corporation (or by any other entity the dividends of which would be U.S. source) for U.S. federal income tax purposes (such payments, “**U.S. Source Payments**”); or
- (b) any payments (regardless of whether such payments have any connection to a U.S. Source Payment) made after 31 December 2018 in respect of the Hang Seng GLDs.

HIRE Act and FATCA withholding tax can affect both coupon or periodic payments and “gross proceeds” (including principal payments).

Based on the provisions of the HIRE Act, current regulations under FATCA and other related official guidance issued by the U.S. Internal Revenue Service, payments made with respect to a Hang Seng GLD that are not U.S. Source Payments will not be subject to HIRE Act or FATCA withholding tax if either (i) such Hang Seng GLD is issued on or before (and is not materially modified after) the Grandfather Date (as defined below) or (ii) such Hang Seng GLD does not provide for any payments after 31 December 2018. For these purposes, the “**Grandfather Date**” is the date that is six months after the date on which final regulations defining the term “foreign passthru payment” are filed with the U.S. Federal Register.

We will neither offer nor issue any Hang Seng GLD providing for payments that are U.S. Source Payments. Additionally, any Hang Seng GLD we offer or issue either will be issued on or before (and not be materially modified after) the Grandfather Date or will not provide for payments after 31 December 2018. Therefore, on the basis of the current regulations, official guidance and the above analysis, payments made with respect to the Hang Seng GLDs issued herein will not be subject to HIRE Act or FATCA withholding tax.

The HIRE Act and FATCA provisions are particularly complex, and their application is uncertain at this time. You should consult your own tax adviser as to the application of the HIRE Act and FATCA to the Hang Seng GLDs.

The above summary only applies to you if you are a non-U.S. Investor. You are a non-U.S. Investor unless you are: (1) an individual citizen or resident of the United States, (2) a corporation, partnership or other entity (excluding a trust) that is formed or organized under the laws of the United States or any of its political subdivisions (or is taxable as an entity so formed or organized), (3) an estate that is subject to U.S. federal income taxation regardless of its source, or (4) a trust that is subject to the jurisdiction of a U.S. court and for which one or more “United States persons” (as defined in the U.S. Internal Revenue Code) control all of the substantial decisions, or has otherwise made an appropriate election under U.S. tax regulations.

### **How do we make use of the proceeds of Hang Seng GLDs?**

We will generally use the proceeds of Hang Seng GLDs to enter into transactions to hedge our exposure under Hang Seng GLDs. The Hang Seng GLDs are not offered for capital raising purposes.

### **On-going disclosure obligations**

We (as the Offeror and the Product Arranger) will keep the SFC and you informed as soon as reasonably practicable if (a) we (as the Offeror) cease to meet any eligibility requirements applicable to issuers under the Code; (b) we (as the Product Arranger) cease to meet any eligibility requirements applicable to product arrangers under the Code; and (c) to the extent permitted by any applicable law, there are changes in our financial condition or other circumstances which could reasonably be expected to have a material adverse effect on our ability (as the Offeror) to fulfill our commitments in connection with Hang Seng GLDs. Please contact us for further details.

### **Governing law**

Hong Kong law governs the terms and conditions of Hang Seng GLDs.



## INFORMATION RELATING TO HANG SENG BANK LIMITED

Founded in 1933 and incorporated in Hong Kong on 5 December 1952, Hang Seng Bank Limited is one of Hong Kong's largest locally incorporated listed banks in terms of market capitalisation (HKD275.9 billion as at 31 December 2016).

The Bank serves both personal and business customers through about 250 service outlets in Hong Kong. It serves over half the adult residents of Hong Kong - more than three million people.

We also maintain branches in Macau and Singapore, and a representative office in Taipei.

Established in 2007, our wholly owned subsidiary Hang Seng Bank (China) Limited operates a mainland China network with outlets in Beijing, Shanghai, Guangzhou, Shenzhen, Fuzhou, Nanjing, Dongguan, Hangzhou, Ningbo, Tianjin, Kunming, Xiamen, Chengdu, Jinan, Foshan, Zhongshan, Huizhou, Zhuhai, Jiangmen and Shantou.

HSBC Holdings plc is the ultimate holding company of the group to which Hang Seng Bank Limited belongs.

As a company with its listing on The Stock Exchange of Hong Kong Limited, Hang Seng Bank Limited is required to make periodic and/or continuous disclosure under the relevant listing rules of this stock exchange. Up-to-date information, including financial information and/or any major development on Hang Seng Bank Limited including publications requested by The Stock Exchange of Hong Kong Limited may be viewed from [www.hkexnews.hk](http://www.hkexnews.hk).

Up-to-date information, including our financial information and/or any of our major development may be viewed from [www.hangseng.com](http://www.hangseng.com) by following the link headed "About Us" followed by "Investor Relations".

### Directors and secretary

The directors of Hang Seng Bank Limited, together with their principal occupations performed by them and their respective addresses for service of process, are set out below. Occupations shown in bold are performed within Hang Seng Bank Limited.

| Name   | Usual business /<br>residential address                                     | Occupation  |
|--|---|---|
| Dr CH' IEN Kuo Fung,<br>Raymond, GBS, CBE, JP <sup>#</sup> | Suites 28 & 30, 2/F, Casey<br>Building, 38 Lok Ku Road,<br>Hong Kong        | <b>Chairman</b> , Hang Seng Bank<br>Limited   |
| Ms LEE Wai Mun, Rose, JP                                   | 83 Des Voeux Road Central,<br>Hong Kong                                     | <b>Vice-Chairman and Chief<br/>Executive</b> , Hang Seng Bank<br>Limited                                  |
| Dr CHAN Cho Chak, John,<br>GBS, JP <sup>#</sup>            | 2/F, Dah Sing Life Building,<br>99-105 Des Voeux Road Central,<br>Hong Kong | Deputy Chairman and<br>Independent Non-executive<br>Director, Transport International<br>Holdings Limited |
| Mr CHAN Lik Sang, Nixon*                                   | 5D Villas Sorrento, 64 Mount<br>Davies Road, Hong Kong                      | <b>Non-executive Director</b> , Hang<br>Seng Bank Limited   |
| Mr CHAN Kwok Wai, Patrick                                  | 83 Des Voeux Road Central,<br>Hong Kong                                     | <b>Executive Director and Head of<br/>Greater China</b> , Hang Seng Bank<br>Limited                       |

<sup>#</sup> Independent Non-executive Director of Hang Seng Bank Limited

| <b>Name</b>  | <b>Usual business /<br/>residential address</b>   | <b>Occupation</b>  |
|--|---|--|
| Dr CHENG Kar Shun, Henry,<br>GBS <sup>#</sup>          | 40th Floor,<br>New World Tower,<br>18 Queen's Road Central,<br>Hong Kong                  | Chairman and Executive<br>Director, New World<br>Development<br>Company Limited and Chow Tai<br>Fook Jewellery Group Limited |
| Ms CHIANG Lai Yuen, JP <sup>#</sup>                    | 13-15 Dai Wang Street<br>Tai Po Industrial Estate<br>Tai Po, New Territories<br>Hong Kong | Executive Director and Chief<br>Executive Officer, Chen Hsong<br>Holdings Limited  |
| Mr FUNG Hau Chung,<br>Andrew, JP                       | 83 Des Voeux Road Central,<br>Hong Kong   | <b>Executive Director and Head<br/>of Global Banking and<br/>Markets</b> , Hang Seng Bank<br>Limited                         |
| Dr HU Zulu, Fred <sup>#</sup>                          | 28th Floor, 28 Hennessy Road<br>Hong Kong   | Founder and Chairman,<br>Primavera Capital Limited   |
| Ms LEE Yun Lien, Irene <sup>#</sup>                    | Level 50, Lee Garden One,<br>33 Hysan Avenue,<br>Causeway Bay,<br>Hong Kong               | Executive Chairman, Hysan<br>Development Company Limited   |
| Ms Sarah Catherine LEGG <sup>*</sup>                   | Level 39,<br>1 Queen's Road Central,<br>Hong Kong   | Group Financial Controller,<br>HSBC Holdings plc   |
| Dr LI Ka Cheung, Eric, GBS,<br>OBE, JP <sup>#</sup>    | 10th Floor Sun Hung Kai Centre,<br>30 Harbour Road, Wanchai,<br>Hong Kong                 | Senior Partner, Li, Tang, Chen &<br>Co., Certified Public Accountants  |
| Dr LO Hong Sui, Vincent, GBS,<br>JP <sup>*</sup>       | 34th Floor, Shui On Centre<br>6-8 Harbour Road Wanchai,<br>Hong Kong                      | Chairman, Shui On Group  |
| Mr NG Sing Yip, Kenneth <sup>*</sup>                   | F1, 9/F, Evergreen Villa,<br>43 Stubbs Road, Hong Kong                                    | <b>Non-executive Director</b> , Hang<br>Seng Bank Limited  |
| Mr TANG Yat Sun,<br>Richard, SBS, BBS, JP <sup>#</sup> | Rooms 1805-1808, 18/F Bank of<br>America Tower,<br>12 Harcourt Road, Central<br>Hong Kong | Chairman & Managing Director,<br>Richcom Company Limited   |
| Mr WONG Tung Shun, Peter,<br>JP <sup>*</sup>           | Level 34,<br>1 Queen's Road Central,<br>Hong Kong   | Deputy Chairman and Chief<br>Executive, The Hongkong and<br>Shanghai Banking Corporation<br>Limited                          |

<sup>#</sup> Independent Non-executive Director of Hang Seng Bank Limited

<sup>\*</sup> Non-executive Director of Hang Seng Bank Limited

| <b>Name</b>                         | <b>Usual business /<br/>residential address</b>  | <b>Occupation</b>  |
|-------------------------------------|--|--|
| Mr WU Wei Kuo, Michael <sup>#</sup> | 18/F, Maxim's Centre, No. 17<br>Cheung Shun Street, Cheung Sha<br>Wan, Kowloon,<br>Hong Kong | Chairman and Managing<br>Director, Maxim's Caterers<br>Limited |

Our Company Secretary is Mr Li Chi Chung, whose business address is 83 Des Voeux Road Central, Hong Kong.

### **Capitalisation**

The following shows the issued and fully paid-up share capital of Hang Seng Bank Limited as at 31 December 2016. For further information, please also refer to the financial statements in the financial disclosure document.

### **Share capital**

The issued and fully paid-up share capital of Hang Seng Bank Limited as at 31 December 2016 is HK\$9,657,507,630 comprising 1,911,842,736 shares.

## APPENDIX A

### TERMS AND CONDITIONS OF HANG SENG GLDS

*The following is the text of the Terms and Conditions of Hang Seng GLDs (“**Terms and Conditions**”). The relevant Confirmation in relation to each Hang Seng GLD may specify additional terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Terms and Conditions, vary, amend and/or supplement the Terms and Conditions for the purpose of such Hang Seng GLD. Capitalised terms used in the Terms and Conditions and not otherwise defined herein shall have the meaning given to them in the relevant Confirmation.*

*The SFC takes no responsibility as to the contents of the Terms and Conditions. The SFC’s authorisation does not imply SFC’s endorsement to the Terms and Conditions.*

#### 1. Acceptance and Confirmation

- (a) The Customer may from time to time make an application for a GLD with the Bank. The Bank may in its sole and absolute discretion accept or reject an application for a GLD from the Customer.
- (b) Upon acceptance by the Bank of an application in respect of a GLD from the Customer on the Order Date, a binding contract between the Bank and the Customer in respect of that GLD is formed. The Customer acknowledges and agrees that such contract will be on the terms set out in a Confirmation sent to the Customer by the Bank within 2 Business Days after the Order Date and such Confirmation is conclusive as to the terms of the contract agreed between the Bank and the Customer in respect of the relevant GLD except in the case of manifest error.
- (c) In respect of an application for a GLD, these Terms and Conditions and the relevant Confirmation issued by the Bank in respect of such application together constitute all the terms and conditions agreed between the Bank and the Customer (each an “**Agreement**”). Where there is any inconsistency between these Terms and Conditions and the Confirmation in respect of an application for a GLD, the Confirmation will prevail for the purposes of the relevant GLD.
- (d) Where there is any inconsistency between the provisions of the Agreement and the terms of any account maintained by the Customer with the Bank to which a GLD is booked, the Agreement will prevail for the purposes of that GLD.

#### 2. Initial Investment

For each GLD entered into between the Bank and the Customer, the Customer must maintain an amount at least equal to the Initial Investment in the Designated Account or Designated Paper Gold Grain Account (as the case may be) with the Bank from the time the Customer places the GLD order. If the GLD order is accepted by the Bank, the Customer shall pay or credit to the Bank the Initial Investment relating to that GLD on the Start Date. The Customer authorises the Bank to freeze and hold the Initial Investment in the Designated Account or Designated Paper Gold Grain Account (as the case may be) from the time the Customer places the GLD order and to debit the Initial Investment from the Designated Account or Designated Paper Gold Grain Account (as the case may be) on the Start Date, and such payment or credit shall be effected automatically by the Bank by debiting from the Designated Account or Designated Paper Gold Grain Account (as the case may be).

#### 3. Expiry of GLD

- (a) *Expiry of GLD.* The GLD will automatically expire in whole of the Initial Investment on the Final Fixing Date (without notice being given to the Customer).
- (b) *Procedures for Expiry.* The Customer will not be required to deliver any notice prior to the Final Fixing Date and the Bank will pay or credit to the Customer the Maturity Receivable in accordance with Condition 4. For the avoidance of doubt, where the GLD has expired on the Final Fixing Date, payment or credit of the Maturity Receivable on the Maturity Date to the Customer shall constitute full and final settlement of the obligations of the Bank with respect to the GLD. Subject to such payment or credit having been made, the Bank shall have no obligation towards the Customer under the GLD subsequent to the Maturity Date.

#### 4. Settlement of GLD

- (a) *Settlement.* Subject to automatic expiry of GLD in accordance with these Terms and Conditions, the Bank will make a payment or credit, in respect of each GLD, to the Customer of the Maturity Receivable. The Bank shall notify the Customer of the Maturity Receivable within 2 Business Days after the Final Fixing Date.
- (b) *Cash Settlement.*
- (i) Subject to Condition 4(b)(ii) below in the case of the RMB Disruption Event which is applicable where the Specified Currency is RMB only, in the case where:
- (1) the Maturity Receivable consists of a cash payment, the Maturity Receivable shall be despatched on the Maturity Date by crediting that amount to the relevant bank account designated by the Customer; and
- (2) where the GLD is early terminated pursuant to Condition 5, the Early Termination Amount shall be despatched not later than the third Business Day after the effective date of such early termination.
- (ii) In the case where the Specified Currency is RMB, if the Bank has determined, in its sole and absolute discretion acting in good faith and in a commercially reasonable manner, that an RMB Disruption Event has occurred on any date on which payment of the Maturity Receivable or the Early Termination Amount in cash is scheduled to be made, such payment will be postponed to the third Business Day after the date on which the RMB Disruption Event ceases to exist, unless the RMB Disruption Event continues to exist for 10 Business Days after the original scheduled date of payment. In such case, the Bank shall make payment of the HKD Equivalent Amount no later than the third Business Day after such tenth Business Day. Any such payment made by the Bank shall be in full and final settlement of its obligations to pay the relevant amount payable in RMB on the affected date of payment in respect of the GLDs.
- A notice of such postponement of such payment will be given to the Customer on the relevant affected date of payment in accordance with Condition 7 and, if applicable, a further notice of the determination of the HKD Equivalent Amount will be given to the Customer as soon as practicable after such HKD Equivalent Amount is determined no later than the second Business Day after such tenth Business Day.
- (c) *Settlement in Paper Gold.* In the case where the Maturity Receivable consists of a quantity of Paper Gold in Paper Gold Unit(s), the Maturity Receivable shall be despatched on the Maturity Date by crediting that amount to the Designated Paper Gold Grain Account.

#### 5. Early Termination

- (a) *Early Termination Event.* If an Early Termination Event occurs on or after the Order Date but on or before the Final Fixing Date, then the GLD shall be terminated as of the date determined by the Bank in its sole and absolute discretion acting in good faith and in a commercially reasonable manner and the entitlement of the Customer to receive the Maturity Receivable shall cease and the Bank's obligations under the GLD shall be satisfied in full upon payment of the Early Termination Amount.

For the purposes of this Condition 5(a):

“**Change in Law**” means, (i) due to the adoption of or any change in any applicable law or regulation (including, without limitation, any tax law), or (ii) due to the promulgation of or any change in the interpretation by any court, tribunal or regulatory authority with competent jurisdiction of any applicable law or regulation (including any action taken by a taxing authority), the Bank determines in good faith and in a commercially reasonable manner that (a) it has become illegal to hold, acquire or dispose of Gold, or (b) the Bank will incur a materially increased cost in performing its obligations under the GLDs (including, without limitation, due to any increase in tax liability, decrease in tax benefit or other adverse effect on its tax position);

**“Closure of Paper Gold Grain Account”** means the closure of the Designated Paper Gold Grain Account pursuant to the terms and conditions of such account and no replacement paper gold grain account has been immediately opened by the Customer with the Bank;

**“Cessation of SFC Authorisation”** means for any reason, the authorisation by the Securities and Futures Commission of the Paper Gold or the issue of the relevant offering document in respect of the Paper Gold under Part IV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ceases to be valid;

**“Early Termination Event”** means each of Change in Law, Closure of Paper Gold Grain Account, Cessation of SFC Authorisation, Hedging Disruption and Material Change in Content;

**“Hedging Disruption”** means the Bank or any of its affiliates are unable, after using commercially reasonable efforts, to (a) acquire, establish, re-establish, substitute, maintain, unwind or dispose of any transaction(s) or asset(s) it deems necessary to hedge the asset price risk of entering into and performing its obligations with respect to any hedging arrangements entered into by the Bank or its relevant affiliate in relation to the GLD, or (b) realise, recover or remit the proceeds of any such transaction(s) or asset(s), provided that any such inability that results due to the deterioration of the creditworthiness of the Bank shall not be deemed a Hedging Disruption; and

**“Material Change in Content”** means the occurrence since the Order Date of a material change in the content, composition or constitution of Gold as announced by the London Bullion Market Association or its successor.

- (b) *Notice of Early Termination.* All determinations made by the Bank pursuant hereto will be (save in the case of manifest error) final and binding on the Customer and the Bank. The Bank will give notice regarding the occurrence of the relevant event and any termination, the Early Termination Amount and the date from which such is effective in accordance with Condition 7 no later than 3 business days after such early termination is determined.

## 6. Modification

The Bank may, without the consent of the Customer, effect any modification of the provisions of the Terms and Conditions which is, in the reasonable opinion of the Bank, of a formal, minor or technical nature, which is made to correct an obvious error, or which is necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong (as defined below). Any such modification shall be binding on the Customer and the Bank. The Bank shall notify the Customer of such modifications before the effective date or as soon as practicable thereafter in accordance with Condition 7.

## 7. Notices

- (a) All documents required or permitted by these Terms and Conditions to be sent to the Customer or to which the Customer is entitled or which the Bank shall have agreed to deliver to the Customer may be delivered by hand or sent by post addressed to the Customer to the Customer’s address (or, in the case of joint Customers, to the address of the first named Customer) last known to the Bank, and airmail post shall be used if such address is not in Hong Kong. All documents delivered or sent in accordance with this Condition 7(a) shall be delivered or sent at the risk of the Customer.
- (b) All notices to Customer will be validly given if sent by mail to the Customer at the Customer’s address last known to the Bank. In addition, such notices may also be published in English in one leading English, and in Chinese in one leading Chinese, language newspaper circulating in Hong Kong. Such notices shall be deemed to have been given on the date of the first such publication.

## 8. Assignment, Transfer or Novation

The Customer cannot assign, transfer or novate any of its rights or obligations in respect of a GLD without the prior written consent of the Bank.

## 9. Modification of the Terms and Conditions of the GLDs in the relevant Confirmation

The Terms and Conditions applicable to the GLDs may be varied, amended and/or supplemented as set forth in the relevant Confirmation or in an addendum.

## 10. Governing Law

The GLD will be governed by and construed in accordance with laws of Hong Kong Special Administrative Region of the People's Republic of China ("Hong Kong"). The Bank and the Customer shall be deemed to have submitted for all purposes in connection with the GLD to the non-exclusive jurisdiction of the courts of Hong Kong.

## 11. Rights of Third Parties

A person who is not a party to these Terms and Conditions has no right under the Contracts (Rights of Third Parties) Ordinance (Cap. 623 of the Laws of Hong Kong) to enforce or to enjoy the benefit of any term of these Terms and Conditions.

## 12. Definitions

For the purposes of these Terms and Conditions:

**"Actual Distribution Rate"** means the actual distribution rate for a Deposit Tenor calculated in accordance with the following formula (calculated to 6 decimal places, 0.0000005 being rounded downwards):

$$\text{Annualised Distribution Rate} \times \frac{\text{Deposit Tenor}}{\text{Day Count}}$$

**"Annualised Distribution Rate"** means the distribution rate per annum specified in the relevant Confirmation, based on the hypothetical assumption that a GLD can be rolled over on the same terms for a period equal to the Day Count. It does not reflect the Actual Distribution Rate for the Deposit Tenor of the GLD;

**"Bank"** means Hang Seng Bank Limited, a company incorporated in Hong Kong and a licensed bank regulated by the Hong Kong Monetary Authority under the Hong Kong Banking Ordinance;

**"Business Day"** means a day (excluding Saturdays, Sundays and public holidays) on which commercial banks are open for business in Hong Kong and: (i) Beijing (if the Specified Currency is RMB); or (ii) the place in which the principal financial centre of the Specified Currency is located (if the Specified Currency is not HKD or RMB);

**"Commodity Business Day"** means a day in respect of which the Price Source is scheduled to publish the price of Gold;

**"Confirmation"** means a confirmation relating to a GLD confirming the terms applicable to that GLD;

**"Conversion Ratio"** means 10. As Gold is quoted on a per troy ounce basis while Paper Gold is quoted on a 0.1 troy ounce basis, a fixed number of Gold Units will be converted into the corresponding Paper Gold Units at such Conversion Ratio in making calculation of the Maturity Receivable;

**"Customer"** means the person or party to the Agreement for a GLD other than the Bank. Where the Customer comprises two or more persons (persons to include individuals, associations, companies and the partners of a named partnership) (i) any reference to the Customer shall be deemed to refer to each such person individually, (ii) any act or omission of one shall be deemed the act or omission of them all, (iii) they shall be jointly and severally liable to the Bank for the obligations of the Customer under these Terms and Conditions, (iv) any communication required to be made to the Customer may be sent to the address last known to the Bank of any one or more of such persons, and (v) any notice to be served on the Customer under these Terms and Conditions shall be validly served if served on any one of them. Where the Customer comprises a partnership, the expression shall include the person or persons from time to time carrying on the business of that partnership;



**“Day Count”** means:

- (i) in the case of a GLD with cash as the Initial Investment:
  - (a) 365 (where the Deposit Tenor does not fall on a leap year) or 366 (where the Deposit Tenor falls on a leap year) if the Specified Currency is HKD;
  - (b) 365 if the Specified Currency is GBP;
  - (c) 360 if the Specified Currency is USD, EUR, AUD, CAD, NZD, CHF, RMB or JPY; or
  - (d) such number as specified in the relevant Confirmation if the Specified Currency is any other currency; or
- (ii) in the case of a GLD with Paper Gold as the Initial Investment, 360;

**“Deposit Tenor”** means the number of calendar days from (and including) the Start Date to (but excluding) the Scheduled Maturity Date as specified in the relevant Confirmation;

**“Designated Account”** means an account of the Customer specified as such in the relevant Confirmation;

**“Designated Paper Gold Grain Account”** means a paper gold grain account of the Customer specified as such in the relevant Confirmation;

**“Disrupted Day”** means any Commodity Business Day on which a Market Disruption Event has occurred;

**“Distribution Amount”** means such amount as calculated by the Bank in accordance with the following formula (calculated to 2 decimal places, 0.005 being rounded upwards, save in the case of JPY, calculated to the nearest whole JPY, 0.5 being rounded upwards):

$$\text{Initial Investment} \times \text{Actual Distribution Rate}$$

**“Early Termination Amount”** means such cash amount in the Specified Currency (subject to Condition 4(b)(ii) where applicable) calculated on a per GLD basis as in the opinion of the Bank (such opinion to be made in its sole and absolute discretion acting in good faith and in a commercially reasonable manner) is the fair value of the GLD as of the date of termination, taking into account all information which it deems relevant such as the prevailing market conditions, which include, without limitation, the value of the relevant embedded derivatives, market interest rate movements, volatility of the Gold price, the Strike Price, the remaining Deposit Tenor of the GLD, any accrued Distribution Amount, the creditworthiness of the Bank and the cost to the Bank of unwinding any related underlying hedging arrangements entered into in respect of such GLD (such as, but not limited to, any market bid/offer spread and any ancillary cost in relation to such unwinding), whether such hedge is held directly by the Bank or indirectly through an affiliate, all as determined by the Bank acting in good faith and in a commercially reasonable manner;

**“Final Fixing Date”** means the date specified in the relevant Confirmation or, if such date is not a Commodity Business Day, the following Commodity Business Day;

**“Final Fixing Price”** means the mid-price per Gold Unit quoted in the Specified Currency as displayed on the Price Source at the Valuation Time on the Final Fixing Date (rounded to 2 decimal places, 0.005 being rounded downwards). If the Final Fixing Price cannot be determined due to the reason that the Final Fixing Date is a Disrupted Day, the Bank shall determine in its good faith and in a commercially reasonable manner the Final Fixing Price on such date based on factors including but not limited to the prevailing USD gold price and, if the Specified Currency is not USD, the prevailing exchange rate between USD and the Specified Currency quoted by an independent third party broker available on an independent third party price source and the prevailing market conditions;

“**GLD**” means a Hang Seng Non-Capital Protected Unlisted Gold Linked Deposit constituted by these Term and Conditions and the relevant Confirmation;

“**Gold**” means Loco London Gold (which must have a fineness of not less than 99.5%) as specified by the London Bullion Market Association or its successor;

“**HKD Equivalent Amount**” means, following the occurrence of an RMB Disruption Event and in respect of an amount payable in RMB on the relevant affected date of payment, an amount in HKD determined by the Bank in good faith and in a commercially reasonable manner, by converting such amount into HKD using such exchange rate as of the tenth Business Day after the original scheduled date of payment, based on (i) the foreign exchange rate of HKD per one USD as at 16:00 (Hong Kong time) on such tenth Business Day as displayed on Reuters Page <HKD=> (or such replacement page) divided by (ii) the offshore foreign exchange rate of RMB per one USD as at 16:00 (Hong Kong time) on such tenth Business Day as displayed on Reuters page <CNH=> (or such replacement page and if any such rate is not available, the exchange rate as determined by the Bank in its sole and absolute discretion acting in good faith and in a commercially reasonable manner);

“**Gold Unit**” means 1 troy ounce of Gold;

“**Initial Investment**” means a cash amount in the Specified Currency (in the case of a GLD with cash as the Initial Investment) or a particular quantity of Paper Gold in Paper Gold Units (in the case of a GLD with Paper Gold as the Initial Investment) the Customer invests to acquire a GLD as specified in the relevant Confirmation;

“**Market Disruption Event**” means:

- (a) the failure of the Price Source to announce or publish the Final Fixing Price;
- (b) the temporary or permanent discontinuance or unavailability of the Price Source; or
- (c) the occurrence or existence of any material suspension of, or the material limitation imposed on, trading in Gold;

“**Maturity Date**” means the Final Fixing Date (or, if such date is not a Business Day, the following Business Day) or such number of Business Day(s) (which will not be more than 2) after the Final Fixing Date as specified in the relevant Confirmation, (where the Specified Currency is RMB) subject to postponement in accordance with Condition 4(b)(ii) upon the occurrence of an RMB Disruption Event, and the scheduled date on which the Maturity Date is expected to fall as specified in the relevant Confirmation is the “**Scheduled Maturity Date**”;

“**Maturity Receivable**” means, in respect of a GLD:

- (a) in the case of a GLD with cash as the Initial Investment:
  - (1) if the Final Fixing Price is at or above the Strike Price, a cash amount in the Specified Currency (subject to Condition 4(b)(ii) where applicable) calculated by the Bank as equal to the sum of the Initial Investment and the Distribution Amount; or
  - (2) if the Final Fixing Price is below the Strike Price, a particular quantity of Paper Gold in Paper Gold Units calculated by the Bank as follows (calculated to 2 decimal places, 0.005 being rounded upwards):

$$[(\text{Initial Investment} + \text{Distribution Amount}) \div \text{Strike Price}] \times \text{Conversion Ratio};$$

or

- (b) in the case of a GLD with Paper Gold as the Initial Investment:
  - (1) if the Final Fixing Price is at or below the Strike Price, a particular quantity of Paper Gold in Paper Gold Units calculated by the Bank as equal to the sum of the Initial Investment and the Distribution Amount; or

- (2) if the Final Fixing Price is above the Strike Price, a cash amount in the Specified Currency (subject to Condition 4(b)(ii) where applicable) calculated by the Bank as follows (calculated to 2 decimal places, 0.005 being rounded upwards, save in the case of JPY, calculated to the nearest whole JPY, 0.5 being rounded upwards):

$$[(\text{Initial Investment} + \text{Distribution Amount}) \div \text{Conversion Ratio}] \times \text{Strike Price}$$

**“Minimum Initial Investment”** means:

- (a) in the case of a GLD with cash as the Initial Investment, the minimum cash amount in the Specified Currency; and
- (b) in the case of a GLD with Paper Gold as the Initial Investment, the minimum quantity of Paper Gold in Paper Gold Unit,

for which an application must be made as specified in the applicable Term Sheet;

**“Order Date”** means the date specified as such in the relevant Confirmation;

**“Paper Gold”** means a notional amount of Gold credited to the Designated Paper Gold Grain Account;

**“Paper Gold Unit”** means 0.1 Gold Unit;

**“Price Source”** means the source as specified in the relevant Confirmation which displays the Final Fixing Price, being Bloomberg page “BFIX” under the heading as specified in the relevant Confirmation or such replacement webpage which displays such information;

**“RMB”** means Renminbi or Chinese Yuan, the lawful currency of the People’s Republic of China (“PRC”);

**“RMB Disruption Event”** means the occurrence of any event that, in the determination of the Bank in its sole and absolute discretion acting in good faith and in a commercially reasonable manner, makes it impossible:

- (1) **RMB Illiquidity** — for the Bank to obtain a firm quote of a price (quoted in USD against RMB) in respect of any amount due and payable in RMB under the GLDs on the relevant scheduled date of payment in the RMB exchange market in Hong Kong in order to perform its obligations under the GLDs;
- (2) **RMB Inconvertibility** — for the Bank to convert any amount due and payable in RMB under the GLDs in the RMB exchange market in Hong Kong, other than where such impossibility is due to the failure of the Bank to comply with any law, rule or regulation enacted by any government authority (unless such law, rule or regulation is enacted after the Start Date and it is impossible for the Bank, due to an event beyond its control, to comply with such law, rule or regulation); or
- (3) **RMB Non-transferability** — for the Bank to transfer RMB between accounts inside Hong Kong, other than where such impossibility is due to the failure of the Bank to comply with any law, rule or regulation enacted by any government authority (unless such law, rule or regulation is enacted after the Start Date and it is impossible for the Bank, due to an event beyond its control, to comply with such law, rule or regulation).

For the avoidance of doubt, the following events shall not constitute an RMB Disruption Event:

- (A) the inability for the Bank to obtain such firm quote due to issues relating to its creditworthiness; and
- (B) the inability for the Bank to convert RMB due to issues relating to its creditworthiness.

**“Specified Currency”** means RMB or any freely convertible major currencies such as Hong Kong dollars (**“HKD”**), United States dollars (**“USD”**), Euro (**“EUR”**), Australian dollars (**“AUD”**), Canadian dollars (**“CAD”**), New Zealand dollars (**“NZD”**), Sterling Pounds (**“GBP”**), Swiss Francs (**“CHF”**) or Japanese Yen (**“JPY”**) as specified in the relevant Confirmation. The Specified Currency is the currency in which the Strike Price and the Final Fixing Price will be expressed or quoted;

**“Strike Price”** shall be the fixed price per Gold Unit (which is expressed in the Specified Currency and rounded to 2 decimal places, 0.005 being rounded downwards) as specified in the relevant Confirmation;

**“Start Date”** means the date specified as such in the relevant Confirmation; and

**“Valuation Time”** means, in respect of a Commodity Business Day, 10:00 (Hong Kong time) on that Commodity Business Day or such other time as specified in the relevant Confirmation.

## APPENDIX B

### FORM OF TERM SHEET FOR HANG SENG GLDS

*We set out below the form of the term sheet for our Hang Seng GLDs. It is indicative only and must not be relied upon as being representative of the terms that will apply to any particular Hang Seng GLD. Each term sheet covers a Hang Seng GLD. You must read the relevant term sheet for the particular Hang Seng GLD together with other offering documents before applying for an Hang Seng GLD.*

#### HANG SENG NON-CAPITAL PROTECTED UNLISTED GOLD LINKED DEPOSIT (WITH [CASH][PAPER GOLD] AS THE INITIAL INVESTMENT)

(The “Hang Seng GLD”)

offered by

**Hang Seng Bank Limited**

*(incorporated in Hong Kong with limited liability, a licensed bank regulated by the Hong Kong Monetary Authority and registered under the Securities and Futures Ordinance of Hong Kong for types 1, 4, 7 and 9 regulated activities)*

**(The Hang Seng GLD is not traded on any markets operated by Hong Kong Exchanges and Clearing Limited or any other stock exchanges)**

**Date:** [date]

#### IMPORTANT RISK WARNING

**Investment involves risks. The following risk factors are not exhaustive and should be read together with other risk factors contained in the “Risk Factors” section in the Principal Brochure.**

- **Not capital protected** — Hang Seng GLDs are not capital protected: you could lose all of your investment.
- **No collateral** — Hang Seng GLDs are not collateralised and are not secured on any of our assets.
- **Unlisted structured products and NOT protected deposits** — Hang Seng GLDs are unlisted structured products embedded with derivatives and are not equivalent to nor should they be treated as substitutes for conventional time deposits. They are NOT protected deposits for the purposes of the Deposit Protection Scheme in Hong Kong.
- **Limited maximum potential gain** — The maximum potential gain is limited to [a predetermined cash amount in the specified currency equal to the distribution amount.]<sup>▲</sup> [the difference between the maturity receivable in the form of a cash amount in the specified currency and the value of the initial investment in paper gold (as determined at the time the Hang Seng GLD order is placed in the specified currency).]<sup>+</sup>
- **Liquidity risk** — Hang Seng GLDs are designed to be held till maturity. There will be no market making arrangements for Hang Seng GLDs, and you cannot transfer or early terminate your Hang Seng GLD without our consent.
- **Counterparty risk** — Hang Seng GLDs constitute general unsecured and unsubordinated contractual obligations of Hang Seng Bank Limited as the Offeror. When you invest in Hang Seng GLDs, you will be relying on the creditworthiness of Hang Seng Bank Limited and of no other person. If Hang Seng Bank Limited (in its capacity as the Offeror) becomes insolvent or defaults on its obligations under Hang Seng GLDs, in the worst case scenario, you could lose all of your initial investment.

<sup>▲</sup> Applicable in the case of a Hang Seng GLD (with Cash as the Initial Investment).

<sup>+</sup> Applicable in the case of a Hang Seng GLD (with Paper Gold as the Initial Investment).

- **Not the same as investing in gold** — Investing in Hang Seng GLDs is not the same as investing in gold. You do not own any gold by investing in Hang Seng GLDs. Changes in the gold price may not lead to a corresponding change in your potential gain/loss under Hang Seng GLDs.
- **No physical delivery of gold** — The maturity receivable under Hang Seng GLDs will depend on the final fixing price of gold. In the case **where the final fixing price is [below]<sup>▲</sup> [at or below]<sup>+</sup> the strike price**, we will not deliver any physical gold to you as the maturity receivable. Instead, **the maturity receivable will be settled in the form of paper gold** which will be credited to your paper gold grain account maintained with us on the maturity date. In such case:
  - (a) **No rights in gold** — The allocation of paper gold in your paper gold grain account is notional and is for the sole purpose of determining the cash value of your investment in such account. You do not have any rights, ownership and possession of any physical gold in such account.
  - (b) **Paper gold units are traded in paper gold price in HKD only which may be worse than the prevailing USD gold price** — The paper gold units credited to your paper gold grain account are traded in the paper gold price quoted by us in HKD only but not the prevailing gold price customarily quoted in USD in the international bullion market. If the maturity receivable is determined to be a particular quantity of paper gold, you will be exposed to movement in HKD paper gold prices (rather than USD gold prices) from and after the final fixing date. Such HKD paper gold prices may be adversely affected by (i) a change in the prevailing exchange rate between USD and HKD and/or the prevailing USD gold price and (ii) our profit margins incorporated therein. Accordingly, changes in the USD gold prices may not necessarily lead to any corresponding change in the HKD paper gold prices, and such HKD paper gold prices may be worse than the HKD equivalent of the prevailing USD gold price for the corresponding quantity of gold.
  - (c) **Paper gold is an investment product involving credit and liquidity risks** — Paper gold is an investment product offered by us which involves risks such as the risk of relying on the creditworthiness of Hang Seng Bank Limited in holding and trading paper gold through your paper gold grain account and the risk of lack of liquidity as you can only trade paper gold with us.
- **Exposure to risks from the time you place an order** — Once you place an order with us, you will be committed to invest in the Hang Seng GLD. You will be exposed to the risks associated with the Hang Seng GLD starting from the time you place an order.
- **What you receive at maturity is subject to volatility of USD gold price** — What you receive under your Hang Seng GLD at maturity will depend on the final fixing price in comparison with the strike price. The final fixing price will be affected by the prevailing USD gold price on the final fixing date. The prevailing USD gold price may go down as well as up since it is affected by a variety of factors that are unpredictable.
- **What you receive at maturity may also be subject to exchange rate risk** — If you do not choose USD as the specified currency, in addition to the prevailing USD gold price on the final fixing date, the final fixing price will also be affected by the prevailing exchange rate between USD and the specified currency. Accordingly, even if the prevailing USD gold price remains stable, a change in the prevailing exchange rate between USD and the specified currency could cause the final fixing price to move against you and result in the [exercise of the put option]<sup>▲</sup> [lapse of the call option]<sup>+</sup> over gold against the specified currency which may lead to a loss under your Hang Seng GLD.
- **Not covered by Investor Compensation Fund** — Hang Seng GLDs are not listed on any stock exchange and are not covered by the Investor Compensation Fund in Hong Kong.

<sup>▲</sup> Applicable in the case of a Hang Seng GLD (with Cash as the Initial Investment).

<sup>+</sup> Applicable in the case of a Hang Seng GLD (with Paper Gold as the Initial Investment).

- **Conflicts of interest** — You should note that conflicts of interest may arise from the different roles played by us and our subsidiaries and affiliates in connection with Hang Seng GLDs and your paper gold grain account maintained with us and our economic interests in each role may be adverse to your interests in Hang Seng GLDs or your paper gold grain account.
- **[Additional risks for Hang Seng GLDs with RMB as specified currency —**
  - (i) **Limited pool of RMB outside the PRC** — RMB is currently subject to foreign exchange control by the PRC central government. There is currently a limited pool of RMB outside the PRC and any tightening of foreign exchange control may adversely affect the liquidity of offshore RMB, and the value and/or potential gain or loss of such Hang Seng GLDs.
  - (ii) **Offshore RMB exchange rate and interest rate risks** — The final fixing price will be affected by offshore RMB exchange rate. You should note that the offshore RMB exchange rate may deviate significantly from the onshore RMB exchange rate. Changes in the offshore RMB exchange rate could cause the final fixing price to move against you and result in the [exercise of the put option]<sup>▲</sup> [lapse of the call option]<sup>+</sup> over gold against the specified currency which may lead to a loss under your Hang Seng GLD. In addition, interest rates for onshore RMB are controlled by the PRC central government. Any further liberalisation of interest rate for onshore RMB may influence the interest rate for offshore RMB which may adversely affect the value and/or potential gain or loss of such Hang Seng GLD.
  - (iii) **Payment postponement for RMB disruption event** — If an RMB disruption event occurs on a scheduled date of payment, payments will be postponed and may be made in a HKD equivalent amount. We will not pay any extra amount for such postponed payment. You may also suffer a loss in HKD terms if RMB depreciates against HKD following the occurrence of an RMB disruption event.]<sup>#</sup>

This Term Sheet must be read in conjunction with

- the financial disclosure document dated [date] [together with the [addendum/addenda] dated [date]] ([together,] the “**Financial Disclosure Document**”), and
- the principal brochure for Hang Seng GLDs dated 23 February 2017 [together with the [addendum/addenda] dated [date]] ([together,] the “**Principal Brochure**”),

each issued by Hang Seng Bank Limited (the “**Bank**”). In this Term Sheet, capitalised terms have the meanings given in “Appendix A — Terms and Conditions of Hang Seng GLDs” in the Principal Brochure unless this Term Sheet specifies otherwise.

The Bank (as the intermediary) has an obligation to distribute all of the above documents to you. You should read all of these documents before deciding whether to invest in Hang Seng GLDs. If you are in any doubt about any of the contents of the documents, you should take independent professional advice. Hard copies [and CD ROM copies] of the Financial Disclosure Document and Principal Brochure (including any addendum to these documents as specified in this Term Sheet) are available from the Bank [and electronic copies of these documents [and this Term Sheet] are available for download from the Bank’s website [www.hangseng.com](http://www.hangseng.com)].

## Summary Terms

|   |   |
|---|---|
| Bank (as the Offeror and the Product Arranger): | Hang Seng Bank Limited (incorporated in Hong Kong with limited liability) and the Bank’s inquiries or complaints hotline is 2822-0228 |
|---|---|

|                     |            |
|---------------------|------------|
| Specified Currency: | [currency] |
|---------------------|------------|

<sup>▲</sup> Applicable in the case of a Hang Seng GLD (with Cash as the Initial Investment).

<sup>+</sup> Applicable in the case of a Hang Seng GLD (with Paper Gold as the Initial Investment).

<sup>#</sup> Applicable only to Hang Seng GLDs with RMB as the specified currency.



|   |   |
|---|---|
| Initial Investment:                         | [A cash amount in the Specified Currency you invest to acquire the Hang Seng GLD] <sup>▲</sup> [A particular quantity of Paper Gold in Paper Gold Units you invest to acquire the Hang Seng GLD] <sup>+</sup> , as agreed with you before you place the purchase order and confirmed in the Confirmation  |
| Strike Price*:                              | [ <i>currency and amount</i> ][Between [ <i>currency and amount</i> ] and [ <i>currency and amount</i> ] (both prices inclusive). The exact Strike Price will be confirmed in the Confirmation]   |
| Investment period:                          | The number of calendar days from (and including) the Order Date to (and including) the Scheduled Maturity Date, which is [ <i>number</i> ] days   |
| Deposit Tenor:                              | The number of calendar days from (and including) the Start Date to (but excluding) the Scheduled Maturity Date, which is [ <i>number</i> ] days   |
| Gold:                                       | Loco London Gold (which must have a fineness of not less than 99.5%) as specified by the London Bullion Market Association or its successor   |
| Gold Unit:                                  | 1 troy ounce of Gold  |
| Paper Gold Unit:                            | 0.1 Gold Unit (i.e. 0.1 troy ounce of Gold)   |
| Final Fixing Date:                          | [ <i>date</i> ] (subject to adjustment made in accordance with the definition of Final Fixing Date in the Terms and Conditions on page 54 of the Principal Brochure)  |
| Maturity Date:                              | [Final Fixing Date] [[1][2] Business Day[s] after the Final Fixing Date], and the scheduled date on which the Maturity Date is expected to fall is [ <i>date</i> ] (“ <b>Scheduled Maturity Date</b> ”) (subject to postponement if the Final Fixing Date has been adjusted as set out above)[, and subject to postponement upon occurrence of an RMB Disruption Event where the Specified Currency is RMB]   |
| Order Date:                                 | [ <i>date</i> ]   |
| Start Date:                                 | [ <i>date</i> ]   |
| Annualised Distribution Rate <sup>*</sup> : | [Not lower than the floor percentage of 1% per annum. The exact Annualised Distribution Rate will be confirmed in the Confirmation] [[ <i>annualised distribution rate</i> ]% per annum]<br><br>The Annualised Distribution Rate is based on the hypothetical assumption that the Hang Seng GLD can be rolled over on the same terms for a period equal to the Day Count. It does not reflect the Actual Distribution Rate for the Deposit Tenor of the Hang Seng GLD. You should not rely on the annualised rate as an indication of the expected potential return for the Hang Seng GLD |
| Actual Distribution Rate:                   | Annualised Distribution Rate x Deposit Tenor/Day Count (calculated to 6 decimal places (0.0000005 being rounded downwards), being [[ <i>number</i> ]%] [not lower than [ <i>number</i> ]%]  |

<sup>▲</sup> Applicable in the case of a Hang Seng GLD (with Cash as the Initial Investment).

<sup>+</sup> Applicable in the case of a Hang Seng GLD (with Paper Gold as the Initial Investment).

<sup>\*</sup> For any Hang Seng GLD to be offered by us, either the Strike Price or the Annualised Distribution Rate may be a range or a floor percentage respectively, and the other must be a fixed price or percentage.

|                             |   |
|-----------------------------|---|
| Distribution Amount:        | This Distribution Amount will be confirmed in the Confirmation, being calculated in accordance with this formula (calculated to 2 decimal places, 0.005 being rounded upwards, save in the case of JPY, calculated to the nearest whole JPY, 0.5 being rounded upwards):<br><br>Initial Investment x Actual Distribution Rate   |
| Day Count:                  | [ <i>number</i> ]   |
| Final Fixing Price:         | The mid-price per Gold Unit quoted in the Specified Currency as displayed on the Price Source at the Valuation Time on the Final Fixing Date (subject to the Bank's determination in good faith and in a commercially reasonable manner in accordance with the definition of Final Fixing Price in the Terms and Conditions on page 54 of the Principal Brochure if the Final Fixing Date is a Disrupted Day). The Bank will publish the Final Fixing Price in its website (currently at [www.hangseng.com/gld_goldprices]) as soon as practicable after such price is displayed on the Price Source  |
| Price Source:               | Bloomberg page <BFIX> under the heading <XAU[ <i>specified currency</i> ]> or such replacement webpage which displays such information  |
| Valuation Time:             | [10:00 (Hong Kong time)/ <i>specified other time</i> ]  |
| Minimum Initial Investment: | [ <i>currency and amount</i> ] <sup>▲</sup> [[ <i>amount</i> ] Paper Gold Unit[s]] <sup>+</sup>   |
| Maturity Receivable:        | <p>[(A) if the Final Fixing Price is at or above the Strike Price, a cash amount in the Specified Currency equal to the sum of the Initial Investment and the Distribution Amount; or</p> <p>(B) if the Final Fixing Price is below the Strike Price, a particular quantity of Paper Gold in Paper Gold Units calculated as follows:</p> $[(\text{Initial Investment} + \text{Distribution Amount}) \div \text{Strike Price}] \times \text{Conversion Ratio (i.e. 10)}]^{\text{▲}}$ <p>[(A) if the Final Fixing Price is at or below the Strike Price, a particular quantity of Paper Gold in Paper Gold Units equal to the sum of the Initial Investment and the Distribution Amount; or</p> <p>(B) if the Final Fixing Price is above the Strike Price, a cash amount in the Specified Currency calculated as follows:</p> $[(\text{Initial Investment} + \text{Distribution Amount}) \div \text{Conversion Ratio (i.e. 10)}] \times \text{Strike Price}]^{\text{+}}$ |
| Terms and Conditions:       | See "Terms and Conditions of Hang Seng GLDs" in Appendix A to the Principal Brochure  |
| Confirmation:               | The Confirmation which reflects the terms stated in this Term Sheet will be sent to you within 2 Business Days after the Order Date. The Confirmation will vary, amend and/or supplement the Term and Conditions. The Confirmation, when read in conjunction with the Terms and Conditions, constitutes the legal terms and conditions applicable to the Hang Seng GLD  |

▲ Applicable in the case of a Hang Seng GLD (with Cash as the Initial Investment).

+ Applicable in the case of a Hang Seng GLD (with Paper Gold as the Initial Investment).

|                               |   |
|-------------------------------|---|
| Listing:                      | Unlisted  |
| Governing Law:                | Laws of Hong Kong Special Administrative Region of the People's Republic of China |
| Internet Banking Application: | [Applicable. Please ask the Bank for details] [Not applicable]                    |

## **Fees and Charges**

Although there are no explicit charges in respect of the Hang Seng GLDs, transaction costs, any fees and charges incurred by the Bank (whether to enter into linked investments or hedging agreements or for operational or administrative purposes) and our profit margins, if any, are already indirectly contained in and subsumed into the calculation of the Annualised Distribution Rate and the Strike Price under the Hang Seng GLDs.

## **Offering Documents**

The offer of this Hang Seng GLDs is made solely on the basis of the information contained in the Financial Disclosure Document, the Principal Brochure (including any addendum to these documents as specified in this Term Sheet) and this Term Sheet.

The information contained in the Financial Disclosure Document and the Principal Brochure and any addendum to these documents (taken together with, and as updated by, this Term Sheet) is accurate at the date of this Term Sheet.

The offering documents for Hang Seng GLDs include particulars given in compliance with the Code on Unlisted Structured Investment Products issued by the SFC (the “**Code**”) for the purpose of giving information with regard to Hang Seng Bank Limited (as the Offeror and the Product Arranger) and Hang Seng GLDs. Hang Seng Bank Limited (as the Offeror and the Product Arranger) accepts full responsibility for the contents of, and the completeness and accuracy of the information contained in the Hang Seng GLDs offering documents and confirms, having made all reasonable enquiries, that to the best of our knowledge and belief, there is no untrue or misleading statement, or other facts the omission of which would make any statement therein untrue or misleading.

As at the date of this Term Sheet, Hang Seng Bank Limited (as the Offeror and the Product Arranger) confirms that it meets all eligibility requirements applicable to issuers and product arrangers under the Code respectively and the Hang Seng GLDs comply with the Code.

## **On-going Disclosure Obligations**

We (as the Offeror and the Product Arranger) will keep the SFC and you informed as soon as reasonably practicable if (a) we (as the Offeror) cease to meet any eligibility requirements applicable to issuers under the Code; (b) we (as the Product Arranger) cease to meet any eligibility requirements applicable to product arrangers under the Code; and (c) to the extent permitted by any applicable law, there are any changes in our financial condition or other circumstances which could reasonably be expected to have a material adverse effect on our ability (as the Offeror) to fulfill our commitments in connection with our Hang Seng GLD. Please contact us for further details.

## **No Post-sale Cooling-off Period and Market Making Arrangement**

Post-sale cooling-off period and market making arrangement are not applicable to our Hang Seng GLDs because the investment period of all Hang Seng GLDs are 6 months or less.

## **Risk Factors**

Hang Seng GLDs involve various investment risks. Please refer to the section headed “IMPORTANT RISK WARNING” provided in this Term Sheet and the sections headed “Risk Factors” in the Principal Brochure.

## SFC Disclaimer Statement

The SFC has authorised the Hang Seng GLDs under Section 104A(1) of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) (“SFO”) and the issue of this Term Sheet based on the standard format set out in Appendix B to the Principal Brochure as part of the offering documents for Hang Seng GLDs under Section 105(1) of the SFO. The SFC takes no responsibility for the Hang Seng GLDs or the contents of this document, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document. The SFC’s authorisation does not imply its endorsement or recommendation of the Hang Seng GLDs referred to in this document, nor does it imply that the SFC guarantees the commercial merits of the Hang Seng GLDs or their performance. The SFC’s authorisation does not mean the Hang Seng GLDs are suitable for all investors nor is it an endorsement of their suitability for any particular investor or class of investors. Interested persons should consider obtaining independent professional advice before deciding whether to invest in the Hang Seng GLDs.

### [Updated information and] [No] material adverse change and material litigation

[The [[NUMBER][st] [nd] [rd] [th] paragraph under the] [sub-]section headed [TITLE] on page[s] [NUMBER] [to [NUMBER]] of [DOCUMENT] shall be [deleted] [replaced] [amended] [supplemented] [by the following:] [[deleted] [replaced] [amended] [supplemented], the details of which are set out in an addendum dated [DATE]]] [The following shall be added after the [[NUMBER][st] [nd] [rd] [th] paragraph under the] [sub-]section headed [TITLE] on page[s] [NUMBER] [to [NUMBER]] of [DOCUMENT]:]

### [DETAILS OF CHANGES]

[Save as disclosed above,] [t][T]here has been (i) no change in the financial position or other circumstances since the date of our latest financial statements in the Financial Disclosure Document and any addendum thereto; and (ii) no litigation proceeding against us, nor are we aware of any claims pending or, to our knowledge, threatened against us, in each case which could reasonably be expected to have a materially adverse effect on the ability of the Bank to fulfill its commitments in connection with the Hang Seng GLDs.

## APPENDIX C

### FORM OF CONFIRMATION FOR HANG SENG GLDS

*We set out below the form of the confirmation for Hang Seng GLDs.*

*The SFC takes no responsibility as to the contents of the form of the confirmation. SFC authorisation of this principal brochure does not imply SFC's endorsement of the confirmation. The confirmation is not a document authorised by the SFC under section 105(1) of the SFO.*

#### Confirmation for Hang Seng GLD

Thank you for subscribing Hang Seng Non-Capital Protected Unlisted Gold Linked Deposit (with [Cash][Paper Gold] as the Initial Investment) ("**Hang Seng GLD**") with Hang Seng Bank Limited ("**Bank**"). This Confirmation constitutes the "Confirmation" relating to the Hang Seng GLD described below. This Confirmation varies, amends and/or supplements the Terms and Conditions which are set out in the Appendix A of the principal brochure for Hang Seng GLDs dated 23 February 2017 ("**Principal Brochure**").

Terms used herein shall be deemed to be defined as such in the Terms and Conditions. In the event of any inconsistency between the Terms and Conditions and this Confirmation, this Confirmation will prevail.

#### The terms of the Hang Seng GLD to which this Confirmation relates are as follows:

|                                     |   |   |
|-------------------------------------|---|---|
| Designated Account                  | : | [account number]  |
| Designated Paper Gold Grain Account | : | [account number]  |
| Order Date                          | : | [date]  |
| Initial Investment                  | : | [currency and amount] <sup>▲</sup><br>[[number] Paper Gold Units] <sup>+</sup>  |
| Specified Currency                  | : | [currency]  |
| Start Date                          | : | [date]  |
| Final Fixing Date                   | : | [date]  |
| Valuation Time                      | : | [10:00 (Hong Kong time)/specified other time]   |
| Price Source                        | : | Bloomberg page <BFIX> under the heading <XAU[specified currency]> or such replacement webpage which displays such information   |
| Maturity Date                       | : | [Final Fixing Date][[1][2] Business Days after the Final Fixing Date], and the scheduled date on which the Maturity Date is expected to fall is [date] (" <b>Scheduled Maturity Date</b> ") |
| Deposit Tenor                       | : | [number] days   |
| Day Count                           | : | [number]  |
| Strike Price                        | : | [currency and amount]   |

<sup>▲</sup> Applicable in the case of a Hang Seng GLD (with Cash as the Initial Investment).

<sup>+</sup> Applicable in the case of a Hang Seng GLD (with Paper Gold as the Initial Investment).

Annualised Distribution Rate : [*annualised distribution rate*]% per annum

The Annualised Distribution Rate is based on the hypothetical assumption that the Hang Seng GLD can be rolled over on the same terms for a period equal to the Day Count. It does not reflect the Actual Distribution Rate for the Deposit Tenor of the Hang Seng GLD. You should not rely on the annualised rate as an indication of the expected potential return for the Hang Seng GLD

Actual Distribution Rate : Annualised Distribution Rate x Deposit Tenor/Day Count, being [*number*]% (calculated to 6 decimal places, 0.0000005 being rounded downwards)

Distribution Amount : [*distribution amount*]

Maturity Receivable : [(A) If the Final Fixing Price is at or above the Strike Price, [*currency and amount*]; or

(B) If the Final Fixing Price is below the Strike Price, [*amount*] Paper Gold Units]<sup>▲</sup>

[(A) If the Final Fixing Price is at or below the Strike Price, [*amount*] Paper Gold Units; or

(B) If the Final Fixing Price is above the Strike Price, [*currency and amount*]]<sup>+</sup>

---

<sup>▲</sup> Applicable in the case of a Hang Seng GLD (with Cash as the Initial Investment).

<sup>+</sup> Applicable in the case of a Hang Seng GLD (with Paper Gold as the Initial Investment).

## APPENDIX D SCENARIO ANALYSIS

The following examples are purely hypothetical and do not reflect a complete analysis of all possible gain or loss scenarios. They are included only for illustrating how Hang Seng GLDs work, and you must not rely on them as any indication of the expected performance of the gold price or what the gain or loss on Hang Seng GLDs might actually be upon maturity of Hang Seng GLDs. The following scenarios do not take into account any fees or charges payable by you.

Capitalised terms used in this Appendix D shall have the meanings as set out in the terms and conditions in Appendix A.

### (1) Where the Specified Currency is AUD

#### **Example A: For Hang Seng GLDs (with Cash as the Initial Investment)**

This example is based on the following terms:

|  |  |
|--|--|
| Specified Currency   | AUD  |
| Deposit Tenor (from and including the Start Date to but excluding the Scheduled Maturity Date)                     | 30 days  |
| Order Date   | 16 March 20XX  |
| Start Date   | 16 March 20XX  |
| Final Fixing Date  | 15 April 20XX  |
| Scheduled Maturity Date  | 15 April 20XX  |
| Valuation Time   | 10:00 (Hong Kong time)   |
| Initial Investment   | AUD100,000   |
| Gold price quoted in USD at the time the Hang Seng GLD order is placed (“ <b>Initial USD Gold Price</b> ”)         | USD2,040.00 (for illustration purposes only)   |
| Exchange rate between AUD and USD at the time the Hang Seng GLD order is placed (“ <b>Initial Exchange Rate</b> ”) | 1.000 (for illustration purposes only, expressed as the number of USD per one AUD)   |
| Gold price quoted in AUD at the time the Hang Seng GLD order is placed (“ <b>Initial AUD Gold Price</b> ”)         | AUD2,040.00 (for illustration purposes only)<br><br>Initial USD Gold Price ÷ Initial Exchange Rate, being<br>USD2,040.00 ÷ 1.000 |
| Strike Price   | AUD2,000.00  |



|                              |  |
|------------------------------|--|
| Annualised Distribution Rate | 6% per annum*  |
|                              | <p>* This is expressed in an annualised format and is based on the hypothetical assumption that the Hang Seng GLD (with Cash as the Initial Investment) can be rolled over on the same terms for a period of 360 days. It does not reflect the Actual Distribution Rate for the Deposit Tenor of the Hang Seng GLD (with Cash as the Initial Investment). You should not rely on the annualised rate as an indication of the expected potential return for the Hang Seng GLD (with Cash as the Initial Investment).</p>  |
| Actual Distribution Rate     | 6% p.a. x 30/360 for the Deposit Tenor, being 0.5%   |
| Distribution Amount          | AUD500   |
|                              | Initial Investment x Actual Distribution Rate, being AUD100,000 x 0.5%   |
| Maturity Receivable          | <p>You will receive on the Maturity Date:</p> <p>(a) If the Final Fixing Price is at or above the Strike Price, a cash amount of AUD100,500 (the sum of the Initial Investment and the Distribution Amount, being AUD100,000 + AUD500); or</p> <p>(b) If the Final Fixing Price is below the Strike Price, 502.50 Paper Gold Units <math>\left( \frac{[(\text{Initial Investment} + \text{Distribution Amount}) \div \text{Strike Price}] \times \text{Conversion Ratio (i.e. 10)}}{1} \right) = \frac{[(\text{AUD100,000} + \text{AUD500}) \div \text{AUD2,000.00}] \times 10}{1}</math>.</p> |

Under the following scenario analysis, calculations are on a per Hang Seng GLD basis.

**Scenario 1: The Final Fixing Price is at or above the Strike Price on Final Fixing Date**

Assuming that the Final Fixing Price is at or above the Strike Price.

In this scenario 1, you will receive a cash amount of AUD100,500 (being the Maturity Receivable) on the Maturity Date.

In this scenario 1, you have an actual gain of AUD500<sup>+</sup> (i.e. AUD100,500 - AUD100,000, being the Distribution Amount) for the Initial Investment. This is the maximum gain under the Hang Seng GLD (with Cash as the Initial Investment).

<sup>+</sup> In this scenario analysis, the investment return is denominated in AUD. USD or HKD-based investors are therefore exposed to fluctuations in the exchange rate between USD or HKD and AUD.

**Scenario 2: Final Fixing Price is below the Strike Price**

Assuming that the Final Fixing Price is below the Strike Price. In this scenario 2, you will receive 502.50 Paper Gold Units (being the Maturity Receivable) on the Maturity Date.

In this scenario, you will suffer a loss or substantial loss of the cash amount in the Specified Currency invested by you under your Hang Seng GLD as the Initial Investment if the value of the Maturity Receivable is less than or substantially less than your original Initial Investment.

The table below illustrates the relevant gain/loss as measured in the Specified Currency where the Final Fixing Price ranges from AUD1,995.00 to AUD0, by comparing:

- (a) the value of 502.50 Paper Gold Units as the Maturity Receivable as of the Final Fixing Date as measured in the Specified Currency\*; against
- (b) the Initial Investment.

\* For the purpose of simple illustration of the potential gain/loss as measured in the Specified Currency, we have assumed that: (i) the exchange rate between HKD and AUD remains unchanged between the Order Date and the Final Fixing Date; and (ii) the value of the Maturity Receivable in Paper Gold Units as of the Final Fixing Date is equal to the value of the corresponding quantity of gold (i.e. the Maturity Receivable in Paper Gold Units divided by the Conversion Ratio of 10) as of the Final Fixing Date by reference to the Final Fixing Price. In real life situation, your realised gain/loss will depend on the paper gold price at which you sell such Paper Gold Units (rather than the gold price).

| Final Fixing Price<br>(see Note 1 on pages 69 and 70) | (a) Value of the Maturity Receivable as of the Final Fixing Date in the Specified Currency (= (Maturity Receivable ÷ 10) x Final Fixing Price) | (b) Initial Investment | Gain/Loss in the Specified Currency (being (a) - (b)) <sup>+</sup> |
|---|--|------------------------|--|
| AUD1,995.00   | (502.50 Paper Gold Units ÷ 10) x AUD1,995.00 = AUD100,248.75   | AUD100,000             | AUD248.75  |
| AUD1,990.00   | (502.50 Paper Gold Units ÷ 10) x AUD1,990.00 = AUD99,997.5   | AUD100,000             | -AUD2.5  |
| AUD1,800.00   | (502.50 Paper Gold Units ÷ 10) x AUD1,800.00 = AUD90,450   | AUD100,000             | -AUD9,550  |
| AUD1,500.00   | (502.50 Paper Gold Units ÷ 10) x AUD1,500.00 = AUD75,375   | AUD100,000             | -AUD24,625   |
| AUD1,000.00   | (502.50 Paper Gold Units ÷ 10) x AUD1,000.00 = AUD50,250   | AUD100,000             | -AUD49,750   |
| AUD500.00   | (502.50 Paper Gold Units ÷ 10) x AUD500.00 = AUD25,125   | AUD100,000             | -AUD74,875   |
| AUD0  | (502.50 Paper Gold Units ÷ 10) x AUD0 = AUD0   | AUD100,000             | -AUD100,000  |

<sup>+</sup> In this scenario analysis, the investment return is denominated in AUD. USD or HKD-based investors are therefore exposed to fluctuations in the exchange rate between USD or HKD and AUD.

**In the worst case scenario, the Paper Gold Units you receive as the Maturity Receivable may be worthless and you may lose your entire Initial Investment.**

**Scenario 3: The Bank becomes insolvent during the Deposit Tenor and fails to honour its obligations**

- If the Bank becomes insolvent during the Deposit Tenor and fails to honour its obligations under the Hang Seng GLDs (with Cash as the Initial Investment), you WILL NOT receive any Maturity Receivable on the Maturity Date.
- You can claim as an unsecured creditor of the Bank. In the worst case scenario, you may get nothing back and the potential maximum loss could be 100% of your original Initial Investment.

Please note that these are only hypothetical assumptions and you should not rely on the hypothetical gain/loss above as the expected gain/loss.

**Note 1 — Illustration of how the Final Fixing Price is affected by the Final Exchange Rate and the Final USD Gold Price**

Although the gold price is customarily quoted in USD, the Final Fixing Price is quoted in AUD. Accordingly, the Final Fixing Price will be affected by (i) the prevailing exchange rate between AUD and USD (expressed as the number of USD per one AUD) at the time the Final Fixing Price is recorded (“**Final Exchange Rate**”) and (ii) the prevailing gold price quoted in USD at such time (“**Final USD Gold Price**”).

The following examples illustrate how the Final Fixing Price will be affected by the Final Exchange Rate and the Final USD Gold Price:

| Examples | Final USD Gold Price (+ increase/- decrease compared to the Initial USD Gold Price) | Final Exchange Rate (change compared to the Initial Exchange Rate) | Final Fixing Price (= Final USD Gold Price ÷ Final Exchange Rate) | Maturity Receivable     |
|----------|---|--|---|-------------------------|
| 1        | USD1,530.00 (-25%)  | 0.6 (AUD depreciates against USD by 40%)                           | AUD2,550.00 (> Strike Price)                                      | AUD100,500              |
| 2        | USD1,785.00 (-12.5%)  | 0.7 (AUD depreciates against USD by 30%)                           |   |                         |
| 3        | USD2,040.00 (no change)   | 0.8 (AUD depreciates against USD by 20%)                           |   |                         |
| 4        | USD2,040.00 (no change)   | 1.2 (AUD appreciates against USD by 20%)                           | AUD1,700.00 (< Strike Price)                                      | 502.50 Paper Gold Units |
| 5        | USD2,210.00 (+8.33%)  | 1.3 (AUD appreciates against USD by 30%)                           |   |                         |
| 6        | USD2,380.00 (+16.67%)   | 1.4 (AUD appreciates against USD by 40%)                           |   |                         |

In particular:

- (a) In examples 1 and 2 above, the decrease in the Final USD Gold Price (as compared to the Initial USD Gold Price) is offset by the depreciation of AUD against USD;
- (b) In example 3 above, although there is no change in the Final USD Gold Price (as compared to the Initial USD Gold Price), the depreciation of AUD against USD results in the Final Fixing Price rising above the Strike Price;
- (c) In example 4 above, although there is no change in the Final USD Gold Price (as compared to the Initial USD Gold Price), the appreciation of AUD against USD results in the Final Fixing Price falling below the Strike Price; and
- (d) In examples 5 and 6 above, the increase in the Final USD Gold Price (as compared to the Initial USD Gold Price) is offset by the appreciation of AUD against USD.

**Example B: For Hang Seng GLDs (with Paper Gold as the Initial Investment)**

This example is based on the following terms:

|  |  |
|--|--|
| Specified Currency   | AUD  |
| Deposit Tenor (from and including the Start Date to but excluding the Scheduled Maturity Date)                     | 30 days  |
| Order Date   | 16 March 20XX  |
| Start Date   | 16 March 20XX  |
| Final Fixing Date  | 15 April 20XX  |
| Scheduled Maturity Date  | 15 April 20XX  |
| Valuation Time   | 10:00 (Hong Kong time)   |
| Initial Investment   | 500 Paper Gold Units   |
| Gold price quoted in USD at the time the Hang Seng GLD order is placed ( <b>“Initial USD Gold Price”</b> )         | USD1,800.00 (for illustration purposes only)   |
| Exchange rate between AUD and USD at the time the Hang Seng GLD order is placed ( <b>“Initial Exchange Rate”</b> ) | 1.000 (for illustration purposes only, expressed as the number of USD per one AUD)   |
| Gold price quoted in AUD at the time the Hang Seng GLD order is placed ( <b>“Initial AUD Gold Price”</b> )         | AUD1,800.00 (for illustration purposes only)<br>Initial USD Gold Price ÷ Initial Exchange Rate, being USD1,800.00 ÷ 1.000  |
| Strike Price   | AUD2,000.00  |
| Annualised Distribution Rate   | 6% per annum*  |
|  | * This is expressed in an annualised format and is based on the hypothetical assumption that the Hang Seng GLD (with Paper Gold as the Initial Investment) can be rolled over on the same terms for a period of 360 days. It does not reflect the Actual Distribution Rate for the Deposit Tenor of the Hang Seng GLD (with Paper Gold as the Initial Investment). You should not rely on the annualised rate as an indication of the expected potential return for the Hang Seng GLD (with Paper Gold as the Initial Investment). |
| Actual Distribution Rate   | 6% p.a. x 30/360 for the Deposit Tenor = 0.5%  |
| Distribution Amount  | 2.5 Paper Gold Units<br><br>Initial Investment x Actual Distribution Rate, being 500 Paper Gold Units x 0.5%   |

|                     |  |
|---------------------|--|
| Maturity Receivable | <p>You will receive on the Maturity Date:</p> <p>(a) If the Final Fixing Price is at or below the Strike Price, 502.50 Paper Gold Units (Initial Investment + Distribution Amount = 500 Paper Gold Units + 2.5 Paper Gold Units); or</p> <p>(b) If the Final Fixing Price is above the Strike Price, a cash amount of AUD100,500 <math>\left( \frac{[(\text{Initial Investment} + \text{Distribution Amount}) \div \text{Conversion Ratio (i.e. 10)}] \times \text{Strike Price}}{[(500 + 2.5) \div 10]} \times \text{AUD2,000.00} \right)</math>.</p> |
|---------------------|--|

Under the following scenario analysis, calculations are on a per Hang Seng GLD basis.

**Scenario 1: The Final Fixing Price is at or below the Strike Price on Final Fixing Date**

Assuming that the Final Fixing Price is at or below the Strike Price. In this scenario 1, you will receive the 502.50 Paper Gold Units as the Maturity Receivable on the Maturity Date.

In this scenario 1, in comparison with your Initial Investment, you receive an increased number of Paper Gold Units of 2.50 Paper Gold Units (i.e. 502.50 Paper Gold Units — 500 Paper Gold Units, being the Distribution Amount).

The table below illustrates the relevant gain/loss as measured in the Specified Currency where the Final Fixing Price ranges from AUD2,000.00 to AUD0, by comparing:

- (a) the value of 502.50 Paper Gold Units as the Maturity Receivable as of the Final Fixing Date as measured in the Specified Currency\*\*; against
- (b) the value of your original Initial Investment of 500 Paper Gold Units as of the Order Date as measured in the Specified Currency\*\*.

\*\* For the purpose of simple illustration of the potential gain/loss as measured in the Specified Currency, we have assumed that:

- (i) the exchange rate between HKD and AUD remains unchanged between the Order Date and the Final Fixing Date;
- (ii) the value of the Initial Investment in Paper Gold Units as of the Order Date is equal to the value of the corresponding quantity of gold (i.e. the Initial Investment in Paper Gold Units divided by the Conversion Ratio of 10) as of the Order Date by reference to the Initial AUD Gold Price; and
- (iii) the value of the Maturity Receivable in Paper Gold Units as of the Final Fixing Date is equal to the value of the corresponding quantity of gold (i.e. the Maturity Receivable in Paper Gold Units divided by the Conversion Ratio of 10) as of the Final Fixing Date by reference to the Final Fixing Price.

In real life situation, your realised gain/loss will depend on the paper gold price at which you sell such Paper Gold Units (rather than the gold price). You should also bear in mind of the original paper gold price at which you purchase the Paper Gold Units as the Initial Investment.

| Final Fixing Price<br>(see Note 2 on pages 74 and 75) | (a) Value of the Maturity Receivable as of the Final Fixing Date in the Specified Currency (= (Maturity Receivable ÷ 10) x Final Fixing Price) | (b) Value of your original Initial Investment as of the Order Date in the Specified Currency (= (Initial Investment ÷ 10) x Initial AUD Gold Price) | Gain/loss in the Specified Currency (being (a) - (b)) <sup>+</sup> |
|---|--|---|--|
| AUD2,000.00   | (502.50 Paper Gold Units ÷ 10) x AUD2,000.00 = AUD100,500  | (500 Paper Gold Units ÷ 10) x AUD1,800.00 = AUD90,000   | AUD10,500  |
| AUD1,800.00   | (502.50 Paper Gold Units ÷ 10) x AUD1,800.00 = AUD90,450   | (500 Paper Gold Units ÷ 10) x AUD1,800.00 = AUD90,000   | AUD450   |
| AUD1,500.00   | (502.50 Paper Gold Units ÷ 10) x AUD1,500.00 = AUD75,375   | (500 Paper Gold Units ÷ 10) x AUD1,800.00 = AUD90,000   | -AUD14,625   |
| AUD1,000.00   | (502.50 Paper Gold Units ÷ 10) x AUD1,000.00 = AUD50,250   | (500 Paper Gold Units ÷ 10) x AUD1,800.00 = AUD90,000   | -AUD39,750   |
| AUD500.00   | (502.50 Paper Gold Units ÷ 10) x AUD500.00 = AUD25,125   | (500 Paper Gold Units ÷ 10) x AUD1,800.00 = AUD90,000   | -AUD64,875   |
| AUD0  | (502.50 Paper Gold Units ÷ 10) x AUD0 = AUD0   | (500 Paper Gold Units ÷ 10) x AUD1,800.00 = AUD90,000   | -AUD90,000   |

<sup>+</sup> In this scenario analysis, the investment return is denominated in AUD. USD or HKD-based investors are therefore exposed to fluctuations in the exchange rate between USD or HKD and AUD.

**In the worst case scenario, the Paper Gold Units you receive as the Maturity Receivable may be worthless and you may lose your entire Initial Investment.**

#### **Scenario 2: Final Fixing Price is above the Strike Price**

Assuming that the Final Fixing Price is above the Strike Price. In this scenario 2, you will receive AUD100,500 as the Maturity Receivable on the Maturity Date.

In this scenario, the cash payment you receive as the Maturity Receivable is fixed at AUD100,500 as you are obliged to sell a fixed quantity of Paper Gold Units equal to the sum of the Initial Investment and Distribution Amount (being converted into the corresponding Gold Units at the Conversion Ratio) at the Strike Price. You lose the opportunity cost of selling such quantity of Gold at the prevailing gold price which is higher than the Strike Price. If you wish to buy back such number of Paper Gold Units equal to the Initial Investment in this scenario after maturity, you may need to incur extra cost in excess of the cash amount you received as the Maturity Receivable, because the prevailing gold price at or after maturity may be higher, or substantially higher, than the Strike Price.

In this scenario, regardless of the price performance of Gold, the relevant gain is measured in the Specified Currency by comparing:

- (a) the Maturity Receivable (being AUD100,500); against
- (b) the value of your original Initial Investment of 500 Paper Gold Units as of the Order Date as measured in the Specified Currency\*\*\* (being AUD90,000 (i.e. 500 Paper Gold Units ÷ 10 (which is the Conversion Ratio) x AUD1,800.00 (which is the Initial AUD Gold Price))),

Accordingly, the relevant gain as measured in the Specified Currency is capped at AUD10,500<sup>+</sup> (being AUD100,500 — AUD90,000).

\*\*\* For the purpose of simple illustration of the potential gain/loss as measured in the Specified Currency, we have assumed that: (i) the exchange rate between HKD and AUD remains unchanged between the Order Date and the Final Fixing Date; and (ii) the value of the Initial Investment in Paper Gold Units as of the Order Date is equal to the value of the corresponding quantity of gold (i.e. the Initial Investment in Paper Gold Units divided by the Conversion Ratio of 10) as of the Order Date by reference to the Initial AUD Gold Price.

+ In this scenario analysis, the investment return is denominated in AUD. USD or HKD-based investors are therefore exposed to fluctuations in the exchange rate between USD or HKD and AUD.

**Scenario 3: The Bank becomes insolvent during the Deposit Tenor and fails to honour its obligations**

- If the Bank becomes insolvent during the Deposit Tenor and fails to honour its obligations under the Hang Seng GLDs (with Paper Gold as the Initial Investment), you WILL NOT receive any Maturity Receivable on the Maturity Date.
- You can claim as an unsecured creditor of the Bank. In the worst case scenario, you may get nothing back and the potential maximum loss could be 100% of your original Initial Investment.

Please note that these are only hypothetical assumptions and you should not rely on the hypothetical gain/loss above as the expected gain/loss.

**Note 2 — Illustration of how the Final Fixing Price is affected by the Final Exchange Rate and the Final USD Gold Price**

Although the gold price is customarily quoted in USD, the Final Fixing Price is quoted in AUD. Accordingly, the Final Fixing Price will be affected by (i) the prevailing exchange rate between AUD and USD (expressed as the number of USD per one AUD) at the time the Final Fixing Price is recorded (“**Final Exchange Rate**”) and (ii) the prevailing gold price quoted in USD at such time (“**Final USD Gold Price**”).

The following examples illustrate how the Final Fixing Price will be affected by the Final Exchange Rate and the Final USD Gold Price:

| Examples | Final USD Gold Price<br>(+ increase/-decrease<br>compared to the Initial USD<br>Gold Price) | Final Exchange<br>Rate (change<br>compared to the<br>Initial Exchange<br>Rate) | Final Fixing Price<br>(= Final USD Gold<br>Price ÷ Final<br>Exchange Rate) | Maturity<br>Receivable     |
|----------|---|--|--|----------------------------|
| 1        | USD1,350.00 (-25%)  | 0.6 (AUD<br>depreciates against<br>USD by 40%)                                 | AUD2,250.00<br>(> Strike Price)  | AUD100,500                 |
| 2        | USD1,687.50 (-6.25%)  | 0.75 (AUD<br>depreciates against<br>USD by 25%)                                |  |                            |
| 3        | USD1,800.00 (no change)   | 0.8 (AUD<br>depreciates against<br>USD by 20%)                                 |  |                            |
| 4        | USD1,800.00 (no change)   | 1.2 (AUD<br>appreciates against<br>USD by 20%)                                 | AUD1,500.00<br>(< Strike Price)  | 502.50 Paper Gold<br>Units |
| 5        | USD1,950.00 (+8.33%)  | 1.3 (AUD<br>appreciates against<br>USD by 30%)                                 |  |                            |
| 6        | USD2,100.00 (+16.67%)   | 1.4 (AUD<br>appreciates against<br>USD by 40%)                                 |  |                            |



In particular:

- (a) In examples 1 and 2 above, the decrease in the Final USD Gold Price (as compared to the Initial USD Gold Price) is offset by the depreciation of AUD against USD;
- (b) In example 3 above, although there is no change in the Final USD Gold Price (as compared to the Initial USD Gold Price), the depreciation of AUD against USD results in the Final Fixing Price rising above the Strike Price;
- (c) In example 4 above, although there is no change in the Final USD Gold Price (as compared to the Initial USD Gold Price), the appreciation of AUD against USD results in the Final Fixing Price falling below the Strike Price; and
- (d) In examples 5 and 6 above, the increase in the Final USD Gold Price (as compared to the Initial USD Gold Price) is offset by the appreciation of AUD against USD.

## (2) Where the Specified Currency is RMB

### Example A: For Hang Seng GLDs (with Cash as the Initial Investment)

This example is based on the following terms:

|  |  |
|--|--|
| Specified Currency   | RMB  |
| Deposit Tenor (from and including the Start Date to but excluding the Scheduled Maturity Date)                     | 30 days  |
| Order Date   | 16 March 20XX  |
| Start Date   | 16 March 20XX  |
| Final Fixing Date  | 15 April 20XX  |
| Scheduled Maturity Date  | 15 April 20XX  |
| Valuation Time   | 10:00 (Hong Kong time)   |
| Initial Investment   | RMB100,000.00  |
| Gold price quoted in USD at the time the Hang Seng GLD order is placed ( <b>“Initial USD Gold Price”</b> )         | USD2,040.00 (for illustration purposes only)   |
| Exchange rate between RMB and USD at the time the Hang Seng GLD order is placed ( <b>“Initial Exchange Rate”</b> ) | 6.000 (for illustration purposes only, expressed as the number of RMB per one USD)   |
| Gold price quoted in RMB at the time the Hang Seng GLD order is placed ( <b>“Initial RMB Gold Price”</b> )         | RMB12,240.00 (for illustration purposes only)<br>Initial USD Gold Price x Initial Exchange Rate, being USD2,040.00 x 6.000 |
| Strike Price   | RMB12,000.00   |

|                              |  |
|------------------------------|--|
| Annualised Distribution Rate | 6% per annum*  |
|                              | * This is expressed in an annualised format and is based on the hypothetical assumption that the Hang Seng GLD (with Cash as the Initial Investment) can be rolled over on the same terms for a period of 360 days. It does not reflect the Actual Distribution Rate for the Deposit Tenor of the Hang Seng GLD (with Cash as the Initial Investment). You should not rely on the annualised rate as an indication of the expected potential return for the Hang Seng GLD (with Cash as the Initial Investment). |
| Actual Distribution Rate     | 6% p.a. x 30/360 for the Deposit Tenor, being 0.5%   |
| Distribution Amount          | RMB500   |
|                              | Initial Investment x Actual Distribution Rate, being RMB100,000 x 0.5%   |
| Maturity Receivable          | You will receive on the Maturity Date:   |
|                              | (a) If the Final Fixing Price is at or above the Strike Price, a cash amount of RMB100,500 (the sum of the Initial Investment and the Distribution Amount, being RMB100,000 + RMB500); or  |
|                              | (b) If the Final Fixing Price is below the Strike Price, 83.75 Paper Gold Units $\left( \frac{[(\text{Initial Investment} + \text{Distribution Amount}) \div \text{Strike Price}] \times \text{Conversion Ratio (i.e. 10)}}{10} = \frac{[(\text{RMB100,000} + \text{RMB500}) \div \text{RMB12,000}] \times 10}{10} \right)$ .  |

Under the following scenario analysis, calculations are on a per Hang Seng GLD basis.

**Scenario 1: The Final Fixing Price is at or above the Strike Price on Final Fixing Date**

Assuming that the Final Fixing Price is at or above the Strike Price.

In this scenario 1, you will receive a cash amount of RMB100,500 (being the Maturity Receivable) on the Maturity Date.

In this scenario 1, you have an actual gain of RMB500<sup>+</sup> (i.e. RMB100,500 — RMB100,000, being the Distribution Amount) for the Initial Investment. This is the maximum gain under the Hang Seng GLD (with Cash as the Initial Investment).

<sup>+</sup> In this scenario analysis, the investment return is denominated in RMB. USD or HKD-based investors are therefore exposed to fluctuations in the exchange rate between USD or HKD and RMB.

**Scenario 2: An RMB Disruption Event occurs on the Maturity Date and continues for 10 Business Days after the Maturity Date**

Taking Scenario 1 above with cash settlement in RMB, if an RMB Disruption Event occurs on the Maturity Date and continues to exist for 10 Business Days after the Maturity Date, payment will be made in an amount in HKD determined by the Bank in good faith and in a commercially reasonable manner, by converting the original amount payable in RMB into HKD using such exchange rate as of such tenth Business Day, based on (i) the foreign exchange rate of HKD per one USD as at 16:00 (Hong Kong time) on such tenth Business Day as displayed on Reuters page <HKD=> divided by (ii) the offshore foreign exchange rate of RMB per one USD as at 16:00 (Hong Kong time) on such tenth Business Day as displayed on Reuters page <CNH=> (or if such rate is not available, the exchange rate as determined by the Bank in its sole and absolute discretion acting in good faith and in a commercially reasonable manner).

Assuming that the offshore RMB exchange rate against HKD prior to the occurrence of an RMB Disruption Event is 1.25 (expressed as the number of HKD per one RMB) and the RMB depreciates significantly against HKD following the occurrence of an RMB Disruption Event and the offshore RMB exchange rate against HKD as of such tenth Business Day is 0.5, you will suffer a loss of HKD75,375 in HKD terms as the HKD Equivalent Amount paid to you, being HKD50,250 (i.e. RMB100,500 x 0.50), is substantially less than the value of the relevant amount payable in RMB on the original Maturity Date in HKD terms (calculated based on the offshore RMB exchange rate against HKD prior to the occurrence of an RMB Disruption Event), being HKD125,625 (i.e. RMB100,500 x 1.25).

### **Scenario 3: Final Fixing Price is below the Strike Price**

Assuming that the Final Fixing Price is below the Strike Price. In this scenario 3, you will receive 83.75 Paper Gold Units (being the Maturity Receivable) on the Maturity Date.

In this scenario, you will suffer a loss or substantial loss of the cash amount in the Specified Currency invested by you under your Hang Seng GLD as the Initial Investment if the value of the Maturity Receivable is less than or substantially less than your original Initial Investment.

The table below illustrates the relevant gain/loss as measured in the Specified Currency where the Final Fixing Price ranges from RMB11,970 to RMB0, by comparing:

- (a) the value of 83.75 Paper Gold Units as the Maturity Receivable as of the Final Fixing Date as measured in the Specified Currency\*; against
- (b) the Initial Investment.

\* For the purpose of simple illustration of the potential gain/loss as measured in the Specified Currency, we have assumed that: (i) the exchange rate between HKD and RMB remains unchanged between the Order Date and the Final Fixing Date; and (ii) the value of the Maturity Receivable in Paper Gold Units as of the Final Fixing Date is equal to the value of the corresponding quantity of gold (i.e. the Maturity Receivable in Paper Gold Units divided by the Conversion Ratio of 10) as of the Final Fixing Date by reference to the Final Fixing Price. In real life situation, your realised gain/loss will depend on the paper gold price at which you sell such Paper Gold Units (rather than the gold price).

| Final Fixing Price<br>(see Note 1 on pages 78 and 79) | (a) Value of the Maturity Receivable as of the Final Fixing Date in the Specified Currency (= (Maturity Receivable ÷ 10) x Final Fixing Price) | (b) Initial Investment | Gain/Loss in the Specified Currency (being (a) - (b)) <sup>+</sup> |
|---|--|------------------------|--|
| RMB11,970   | (83.75 Paper Gold Units ÷ 10) x RMB11,970 = RMB100,248.75  | RMB100,000             | RMB248.75  |
| RMB11,940   | (83.75 Paper Gold Units ÷ 10) x RMB11,940 = RMB99,997.50   | RMB100,000             | -RMB2.50   |
| RMB10,800   | (83.75 Paper Gold Units ÷ 10) x RMB10,800 = RMB90,450  | RMB100,000             | -RMB9,550  |
| RMB9,000  | (83.75 Paper Gold Units ÷ 10) x RMB9,000 = RMB75,375   | RMB100,000             | -RMB24,625   |
| RMB6,000  | (83.75 Paper Gold Units ÷ 10) x RMB6,000 = RMB50,250   | RMB100,000             | -RMB49,750   |
| RMB3,000  | (83.75 Paper Gold Units ÷ 10) x RMB3,000 = RMB25,125   | RMB100,000             | -RMB74,875   |
| RMB0  | (83.75 Paper Gold Units ÷ 10) x RMB0 = RMB0  | RMB100,000             | -RMB100,000  |

<sup>+</sup> In this scenario analysis, the investment return is denominated in RMB. USD or HKD-based investors are therefore exposed to fluctuations in the exchange rate between USD or HKD and RMB.

In the worst case scenario, the Paper Gold Units you receive as the Maturity Receivable may be worthless and you may lose your entire Initial Investment.

**Scenario 4: The Bank becomes insolvent during the Deposit Tenor and fails to honour its obligations**

- If the Bank becomes insolvent during the Deposit Tenor and fails to honour its obligations under the Hang Seng GLDs (with Cash as the Initial Investment), you WILL NOT receive any Maturity Receivable on the Maturity Date.
- You can claim as an unsecured creditor of the Bank. In the worst case scenario, you may get nothing back and the potential maximum loss could be 100% of your original Initial Investment.

Please note that these are only hypothetical assumptions and you should not rely on the hypothetical gain/loss above as the expected gain/loss.

**Note 1 — Illustration of how the Final Fixing Price is affected by the Final Exchange Rate and the Final USD Gold Price**

Although the gold price is customarily quoted in USD, the Final Fixing Price is quoted in RMB. Accordingly, the Final Fixing Price will be affected by (i) the prevailing exchange rate between RMB and USD (expressed as the number of RMB per one USD) at the time the Final Fixing Price is recorded (“**Final Exchange Rate**”) and (ii) the prevailing gold price quoted in USD at such time (“**Final USD Gold Price**”).

The following examples illustrate how the Final Fixing Price will be affected by the Final Exchange Rate and the Final USD Gold Price:

| Examples | Final USD Gold Price<br>(+ increase/- decrease<br>compared to the Initial USD<br>Gold Price) | Final Exchange<br>Rate (change<br>compared to the<br>Initial Exchange<br>Rate) | Final Fixing Price<br>(= Final USD Gold<br>Price x Final<br>Exchange Rate) | Maturity<br>Receivable    |
|----------|--|--|--|---------------------------|
| 1        | USD1,530 (-25%)  | 8.40 (USD<br>appreciates against<br>RMB by 40%)                                | RMB12,852<br>(> Strike Price)  | RMB100,500                |
| 2        | USD1,785 (-12.5%)  | 7.20 (USD<br>appreciates against<br>RMB by 20%)                                |  |                           |
| 3        | USD2,040 (no change)   | 6.30 (USD<br>appreciates against<br>RMB by 5%)                                 |  |                           |
| 4        | USD2,040 (no change)   | 5.70 (USD<br>depreciates against<br>RMB by 5%)                                 | RMB11,628<br>(< Strike Price)  | 83.75 Paper Gold<br>Units |
| 5        | USD2,422.5 (+18.75%)   | 4.80 (USD<br>depreciates against<br>RMB by 20%)                                |  |                           |
| 6        | USD3,230 (+58.33%)   | 3.60 (USD<br>depreciates against<br>RMB by 40%)                                |  |                           |

In particular:

- In examples 1 and 2 above, the decrease in the Final USD Gold Price (as compared to the Initial USD Gold Price) is offset by the appreciation of USD against RMB;
- In example 3 above, although there is no change in the Final USD Gold Price (as compared to the Initial USD Gold Price), the appreciation of USD against RMB results in the Final Fixing Price rising above the Strike Price;

- (c) In example 4 above, although there is no change in the Final USD Gold Price (as compared to the Initial USD Gold Price), the depreciation of USD against RMB results in the Final Fixing Price falling below the Strike Price; and
- (d) In examples 5 and 6 above, the increase in the Final USD Gold Price (as compared to the Initial USD Gold Price) is offset by the depreciation of USD against RMB.

**Example B: For Hang Seng GLDs (with Paper Gold as the Initial Investment)**

This example is based on the following terms:

|  |  |
|--|--|
| Specified Currency   | RMB  |
| Deposit Tenor (from and including the Start Date to but excluding the Scheduled Maturity Date)                     | 30 days  |
| Order Date   | 16 March 20XX  |
| Start Date   | 16 March 20XX  |
| Final Fixing Date  | 15 April 20XX  |
| Scheduled Maturity Date  | 15 April 20XX  |
| Valuation Time   | 10:00 (Hong Kong time)   |
| Initial Investment   | 100 Paper Gold Units   |
| Gold price quoted in USD at the time the Hang Seng GLD order is placed ( <b>“Initial USD Gold Price”</b> )         | USD1,800.00 (for illustration purposes only)   |
| Exchange rate between RMB and USD at the time the Hang Seng GLD order is placed ( <b>“Initial Exchange Rate”</b> ) | 6.000 (for illustration purposes only, expressed as the number of RMB per one USD)   |
| Gold price quoted in RMB at the time the Hang Seng GLD order is placed ( <b>“Initial RMB Gold Price”</b> )         | RMB10,800.00 (for illustration purposes only)<br>Initial USD Gold Price x Initial Exchange Rate, being USD1,800.00 x 6.000   |
| Strike Price   | RMB12,000.00   |
| Annualised Distribution Rate   | 6% per annum*  |
|  | * This is expressed in an annualised format and is based on the hypothetical assumption that the Hang Seng GLD (with Paper Gold as the Initial Investment) can be rolled over on the same terms for a period of 360 days. It does not reflect the Actual Distribution Rate for the Deposit Tenor of the Hang Seng GLD (with Paper Gold as the Initial Investment). You should not rely on the annualised rate as an indication of the expected potential return for the Hang Seng GLD (with Paper Gold as the Initial Investment). |
| Actual Distribution Rate   | 6% p.a. x 30/360 for the Deposit Tenor = 0.5%  |

|                     |   |
|---------------------|---|
| Distribution Amount | 0.50 Paper Gold Units   |
|                     | Initial Investment x Actual Distribution Rate, being 100 Paper Gold Units x 0.5%  |
| Maturity Receivable | You will receive on the Maturity Date:  |
|                     | (a) If the Final Fixing Price is at or below the Strike Price, 100.50 Paper Gold Units (Initial Investment + Distribution Amount = 100 Paper Gold Units + 0.50 Paper Gold Units); or  |
|                     | (b) If the Final Fixing Price is above the Strike Price, a cash amount of RMB120,600 $\left( \frac{[(\text{Initial Investment} + \text{Distribution Amount})] \div \text{Conversion Ratio (i.e. 10)} \times \text{Strike Price}}{[(100 + 0.50)] \div 10 \times \text{RMB12,000}} \right)$ . |

Under the following scenario analysis, calculations are on a per Hang Seng GLD basis.

**Scenario 1: The Final Fixing Price is at or below the Strike Price on Final Fixing Date**

Assuming that the Final Fixing Price is at or below the Strike Price. In this scenario 1, you will receive the 100.50 Paper Gold Units as the Maturity Receivable on the Maturity Date.

In this scenario 1, in comparison with your Initial Investment, you receive an increased number of Paper Gold Units of 0.50 Paper Gold Units (i.e. 100.50 Paper Gold Units — 100 Paper Gold Units, being the Distribution Amount).

The table below illustrates the relevant gain/loss as measured in the Specified Currency where the Final Fixing Price ranges from RMB12,000 to RMB0, by comparing:

- (a) the value of 100.50 Paper Gold Units as the Maturity Receivable as of the Final Fixing Date as measured in the Specified Currency\*\*; against
- (b) the value of your original Initial Investment of 100 Paper Gold Units as of the Order Date as measured in the Specified Currency\*\*.

\*\* For the purpose of simple illustration of the potential gain/loss as measured in the Specified Currency, we have assumed that:

- (i) the exchange rate between HKD and RMB remains unchanged between the Order Date and the Final Fixing Date;
- (ii) the value of the Initial Investment in Paper Gold Units as of the Order Date is equal to the value of the corresponding quantity of gold (i.e. the Initial Investment in Paper Gold Units divided by the Conversion Ratio of 10) as of the Order Date by reference to the Initial RMB Gold Price; and
- (iii) the value of the Maturity Receivable in Paper Gold Units as of the Final Fixing Date is equal to the value of the corresponding quantity of gold (i.e. the Maturity Receivable in Paper Gold Units divided by the Conversion Ratio of 10) as of the Final Fixing Date by reference to the Final Fixing Price.

In real life situation, your realised gain/loss will depend on the paper gold price at which you sell such Paper Gold Units (rather than the gold price). You should also bear in mind of the original paper gold price at which you purchase the Paper Gold Units as the Initial Investment.

| Final Fixing Price (see Note 2 on pages 82 and 83) | (a) Value of the Maturity Receivable as of the Final Fixing Date in the Specified Currency (= (Maturity Receivable ÷ 10) x Final Fixing Price) | (b) Value of your original Initial Investment as of the Order Date in the Specified Currency (= (Initial Investment ÷ 10) x Initial RMB Gold Price) | Gain/loss in the Specified Currency (being (a) - (b)) <sup>+</sup> |
|--|--|---|--|
| RMB12,000  | (100.50 Paper Gold Units ÷ 10) x RMB12,000 = RMB120,600  | (100 Paper Gold Units ÷ 10) x RMB10,800 = RMB108,000  | RMB12,600  |
| RMB10,800  | (100.50 Paper Gold Units ÷ 10) x RMB10,800 = RMB108,540  | (100 Paper Gold Units ÷ 10) x RMB10,800 = RMB108,000  | RMB540   |
| RMB9,000   | (100.50 Paper Gold Units ÷ 10) x RMB9,000 = RMB90,450  | (100 Paper Gold Units ÷ 10) x RMB10,800 = RMB108,000  | -RMB17,550   |
| RMB6,000   | (100.50 Paper Gold Units ÷ 10) x RMB6,000 = RMB60,300  | (100 Paper Gold Units ÷ 10) x RMB10,800 = RMB108,000  | -RMB47,700   |
| RMB3,000   | (100.50 Paper Gold Units ÷ 10) x RMB3,000 = RMB30,150  | (100 Paper Gold Units ÷ 10) x RMB10,800 = RMB108,000  | -RMB77,850   |
| RMB0   | (100.50 Paper Gold Units ÷ 10) x RMB0 = RMB0   | (100 Paper Gold Units ÷ 10) x RMB10,800 = RMB108,000  | -RMB108,000  |

<sup>+</sup> In this scenario analysis, the investment return is denominated in RMB. USD or HKD-based investors are therefore exposed to fluctuations in the exchange rate between USD or HKD and RMB.

**In the worst case scenario, the Paper Gold Units you receive as the Maturity Receivable may be worthless and you may lose your entire Initial Investment.**

#### **Scenario 2: Final Fixing Price is above the Strike Price**

Assuming that the Final Fixing Price is above the Strike Price. In this scenario 2, you will receive RMB120,600 as the Maturity Receivable on the Maturity Date.

In this scenario, the cash payment you receive as the Maturity Receivable is fixed at RMB120,600 as you are obliged to sell a fixed quantity of Paper Gold Units equal to the sum of the Initial Investment and Distribution Amount (being converted into the corresponding Gold Units at the Conversion Ratio) at the Strike Price. You lose the opportunity cost of selling such quantity of Gold at the prevailing gold price which is higher than the Strike Price. If you wish to buy back such number of Paper Gold Units equal to the Initial Investment in this scenario after maturity, you may need to incur extra cost in excess of the cash amount you received as the Maturity Receivable, because the prevailing gold price at or after maturity may be higher, or substantially higher, than the Strike Price.

In this scenario, regardless of the price performance of Gold, the relevant gain is measured in the Specified Currency by comparing:

- (a) the Maturity Receivable (being RMB120,600); against
- (b) the value of your original Initial Investment of 100 Paper Gold Units as of the Order Date as measured in the Specified Currency\*\*\*.

Accordingly, the value of your original Initial Investment as of the Order Date as measured in the Specified Currency is RMB108,000 (being (100 Paper Gold Units ÷ 10 (which is the Conversion Ratio)) x RMB10,800 (which is the Initial RMB Gold Price)), and the relevant gain as measured in the Specified Currency is capped at RMB12,600<sup>+</sup> (being RMB120,600 — RMB108,000).

\*\*\* For the purpose of simple illustration of the potential gain/loss as measured in the Specified Currency, we have assumed that: (i) the exchange rate between HKD and RMB remains unchanged between the Order Date and the Final Fixing Date; and (ii) the value of the Initial Investment in Paper Gold Units as of the Order Date is equal to the value of the corresponding quantity of gold (i.e. the Initial Investment in Paper Gold Units divided by the Conversion Ratio of 10) as of the Order Date by reference to the Initial RMB Gold Price.



- <sup>+</sup> In this scenario analysis, the investment return is denominated in RMB. USD or HKD-based investors are therefore exposed to fluctuations in the exchange rate between USD or HKD and RMB.

**Scenario 3: An RMB Disruption Event occurs on the Maturity Date and continues for 10 Business Days after the Maturity Date**

Taking Scenario 2 above with cash settlement in RMB, if an RMB Disruption Event occurs on the Maturity Date and continues to exist for 10 Business Days after the Maturity Date, payment will be made in an amount in HKD determined by the Bank in good faith and in a commercially reasonable manner, by converting the original amount payable in RMB into HKD using such exchange rate as of such tenth Business Day, based on (i) the foreign exchange rate of HKD per one USD as at 16:00 (Hong Kong time) on such tenth Business Day as displayed on Reuters page <HKD=> divided by (ii) the offshore foreign exchange rate of RMB per one USD as at 16:00 (Hong Kong time) on such tenth Business Day as displayed on Reuters page <CNH=> (or if such rate is not available, the exchange rate as determined by the Bank in its sole and absolute discretion acting in good faith and in a commercially reasonable manner).

Assuming that the offshore RMB exchange rate against HKD prior to the occurrence of an RMB Disruption Event is 1.25 (expressed as the number of HKD per one RMB) and RMB depreciates significantly against HKD following the occurrence of an RMB Disruption Event and the offshore RMB exchange rate against HKD as of such tenth Business Day is 0.5, you will suffer a loss of HKD90,450 in HKD terms as the HKD Equivalent Amount paid to you, being HKD60,300 (i.e. RMB120,600 x 0.50), is substantially less than the value of the relevant amount payable in RMB on the original Maturity Date in HKD terms (calculated based on the offshore RMB exchange rate against HKD prior to the occurrence of an RMB Disruption Event), being HKD150,750 (i.e. RMB120,600 x 1.25).

You should also note that fluctuations in the exchange rate between HKD and RMB may have an adverse impact on the amount of HKD equivalent amount payable and thus on your potential gain or loss under the Hang Seng GLD. You may suffer a significant loss if RMB depreciates significantly against HKD.

**Scenario 4: The Bank becomes insolvent during the Deposit Tenor and fails to honour its obligations**

- If the Bank becomes insolvent during the Deposit Tenor and fails to honour its obligations under the Hang Seng GLDs (with Paper Gold as the Initial Investment), you WILL NOT receive any Maturity Receivable on the Maturity Date.
- You can claim as an unsecured creditor of the Bank. In the worst case scenario, you may get nothing back and the potential maximum loss could be 100% of your original Initial Investment.

Please note that these are only hypothetical assumptions and you should not rely on the hypothetical gain/loss above as the expected gain/loss.

**Note 2 — Illustration of how the Final Fixing Price is affected by the Final Exchange Rate and the Final USD Gold Price**

Although the gold price is customarily quoted in USD, the Final Fixing Price is quoted in RMB. Accordingly, the Final Fixing Price will be affected by (i) the prevailing exchange rate between RMB and USD (expressed as the number of RMB per one USD) at the time the Final Fixing Price is recorded (“**Final Exchange Rate**”) and (ii) the prevailing gold price quoted in USD at such time (“**Final USD Gold Price**”).

The following examples illustrate how the Final Fixing Price will be affected by the Final Exchange Rate and the Final USD Gold Price:

| Examples | Final USD Gold Price (+ increase/- decrease compared to the Initial USD Gold Price) | Final Exchange Rate (change compared to the Initial Exchange Rate) | Final Fixing Price (= Final USD Gold Price x Final Exchange Rate) | Maturity Receivable     |
|----------|---|--|---|-------------------------|
| 1        | USD1,350.00 (-25%)  | 9.00 (USD appreciates against RMB by 50%)                          | RMB12,150<br>(> Strike Price)                                     | RMB120,600              |
| 2        | USD1,687.50 (-6.25%)  | 7.20 (USD appreciates against RMB by 20%)                          |   |                         |
| 3        | USD1,800.00 (no change)   | 6.75 (USD appreciates against RMB by 12.5%)                        |   |                         |
| 4        | USD1,800.00 (no change)   | 5.25 (USD depreciates against RMB by 12.5%)                        | RMB9,450<br>(< Strike Price)                                      | 100.50 Paper Gold Units |
| 5        | USD1,968.75 (+9.375%)   | 4.80 (USD depreciates against RMB by 20%)                          |   |                         |
| 6        | USD2,625.00 (+45.83%)   | 3.60 (USD depreciates against RMB by 40%)                          |   |                         |

In particular:

- (a) In examples 1 and 2 above, the decrease in the Final USD Gold Price (as compared to the Initial USD Gold Price) is offset by the appreciation of USD against RMB;
- (b) In example 3 above, although there is no change in the Final USD Gold Price (as compared to the Initial USD Gold Price), the appreciation of USD against RMB results in the Final Fixing Price rising above the Strike Price;
- (c) In example 4 above, although there is no change in the Final USD Gold Price (as compared to the Initial USD Gold Price), the depreciation of USD against RMB results in the Final Fixing Price falling below the Strike Price; and
- (d) In examples 5 and 6 above, the increase in the Final USD Gold Price (as compared to the Initial USD Gold Price) is offset by the depreciation of USD against RMB.

**REGISTERED OFFICE OF THE BANK  
(AS OFFEROR AND PRODUCT ARRANGER)**

**Hang Seng Bank Limited**  
83 Des Voeux Road Central  
Hong Kong

**LEGAL ADVISER**

*To the Offeror as to Hong Kong law*

**King & Wood Malleons**

13th Floor  
Gloucester Tower  
The Landmark  
15 Queen's Road Central  
Central  
Hong Kong