PRODUCT BOOKLET:
PAPER GOLD AND SILVER

This document serves to explain the key product features and product risks of Spot and Forward transactions, Structured Notes, and Over-the-counter Options on Paper Gold and Silver. It is important that you read and understand the information contained herein before you consider any investments in Paper Gold and Silver. This document does not constitute an offer, an invitation, or a recommendation to enter into any transaction. This document is solely intended for a professional investor, as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "SFO") and the rules made under the SFO.

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The Bank, its related companies, their directors and/or employees may from time to time have positions in, and may effect transactions in the products or underlying products/assets mentioned in this document. The Bank may have alliances or other contractual agreements with the providers of the products or underlying products to market or sell its products, for which the Bank may receive a fee. Where the Bank's related company is the product provider, such related company may be receiving fees from investors. In addition, the Bank, its related companies, their directors and/or employees may also perform or seek to perform broking, investment banking and other financial services for these product providers.

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The products may not be authorized by any regulatory authorities in Singapore or Hong Kong or elsewhere.

Content

Product Scope

This Product Booklet serves to explain the key product features, mechanism and certain product risks of the following products (collectively, the "Products"):

- Spot transactions on Paper Gold and Silver
- Forward transactions on Paper Gold and Silver*
- Certain variations of Structured Notes on Paper Gold and Silver
- Over-the-counter ("OTC") options ("Options") on Paper Gold and Silver

*Paper Gold and Silver transacted on a forward basis are not interchangeable with any of Paper Gold and Silver transacted on a spot basis, structured notes or OTC options. Purely for the sake of differentiation, Paper Gold and Silver transacted on forward basis are referred to as "FX Gold and Silver" in this Product Booklet.

Product Features

- **Paper Gold and Silver (the "Commodity")**

  The Paper Gold and Silver held by investors are represented by credit balances in an account held by the investor with the Bank. Paper Gold and Silver in such accounts will be expressed in units of one fine troy ounce of gold and one troy ounce of silver based upon a 995 fine London Good Delivery gold bar, and a 999 fine London Good Delivery silver bar respectively. However, credit balances on the applicable account, notwithstanding that they are expressed in units of gold or silver, do not entitle the investor to specific bars of gold or silver. Such units of measure are for reference only and credit balances in such accounts represent indebtedness of the Bank to the investor.

  All transactions described in this document may be denominated in United States Dollars (USD), Australian Dollars (AUD), Singapore Dollars (SGD) or Hong Kong Dollars (HKD). The transaction price shall be the price of Paper Gold or Silver in the respective currency. More currencies may be added from time-to-time. Please ask your Relationship Manager for the latest list of available currencies for transactions in Paper Gold and Silver.

  The investor's Paper Gold/ Silver positions, regardless of the currency of denomination, will be shown in the applicable client statement and valued using the prevailing market price of Paper Gold or Silver in USD, as applicable. Upon closure of the investor's Commodity positions in any Account, the Bank may (but shall not be obliged to) realise such quantity of Commodity at a price determined by the Bank in its absolute discretion; and pay to an Account of the investor such net amount (after deduction of any expenses incurred in connection therewith and/or any fee or charge payable under the DBS Private Bank Master Agreement or DBS Treasures Private Client Terms and Conditions), as appropriate, based in such currency using the prevailing exchange rate as at the date to be determined by the Bank in its absolute discretion.

  Investors do not have any right or interest of whatever nature (whether proprietary or otherwise) in any Gold or Silver notwithstanding their investment in any of the products in this Product Booklet. Investors also cannot deposit or withdraw physical gold or silver into or from their accounts, or deposit or withdraw Paper Gold or Silver in their or from accounts in with the Bank.

- **Investors**

  In order to invest in the Products, an investor must be a professional investor (**"PI"**) and a Private Banking Customer (such a customer is hereinafter called a **"PBC"**).

  Note: **"PBC"** refers to any of the following (as the case may be):-

  <u>For individual customer: -</u>

  an individual who maintains a personalized relationship with the Bank and receives personalized banking services or portfolio management service from the Bank and has:-

  (a) at least US$3 million or its equivalent in any other currency in investable assets; or

  (b) at least HK$8 million or its equivalent in any other currency in investable assets under the Bank's management.

  <u>For non-individual customer: -</u> Relationship Manager will explain to you its definition and requirements before you sign this Product Booklet. For any questions, please contact your Relationship Manager.

  Investable assets comprise securities, deposits and certificates of deposits. The amount may be calculated on a relationship basis covering (i) individual accounts; (ii) joint accounts with associates; and (iii) personal investment companies jointly owned by the individual and associates. Associate means the spouse or any child of the individual."

- **Spot Transactions**

  Investors may buy Paper Gold and Silver from the Bank, or sell holdings of Paper Gold and Silver in the investors' account to the Bank. Short-selling is not offered.

  Minimum transaction size:

  ✓ Paper Gold : 100 oz, with increment of 0.01 oz

  ✓ Paper Silver : 10,000 oz with increment of 1 oz

  Settlement of Spot transactions usually takes place on the 2nd business day after the transaction only by way of a debit/credit to an account of the investor with the Bank. No physical settlement of Spot Transactions will take place.

- **Forward Transactions**

  Investors may buy / sell Paper Gold and Silver from / to the Bank on a forward basis, i.e, a purchase or sale transaction where the settlement date is more than 2 days after the transaction date. All settlement of Forward transactions will take place only by way of a debit/credit to the investor's applicable account. No physical settlement of Spot Transactions will take place.

  To close-out an open Forward transaction on FX Gold or Silver (the **"Initial Forward Contract"**), each investor is required to enter into one or more offsetting contracts by 5pm Hong Kong Time on the third FX Gold / Silver Trading Day prior to the settlement date of the Initial Forward Contract, such that on the settlement date of that Initial Forward Contract, the net quantity of FX Gold or Silver to be delivered by the investor or the Bank to each other under that Initial Forward Contract is zero. If the investor does not do so by such time, the Bank has the right and authority (but not the obligation) to enter into any offsetting contract(s) at such time determined by the Bank in its absolute discretion so that the quantity of FX Gold or Silver to be delivered by the investor or the Bank to each other under that Initial Forward Contract is zero; and the investor will be responsible for all costs, losses and expenses (whether direct, indirect or consequential) suffered or incurred by the Bank together with all associated fees and charges and the Bank has the further right and authority (but not obligation) to debit such sum of money from any account of the investor with the Bank to settle the same.

  An investor must be a PI and PBC when he/she enters into any forward transactions (including offsetting forward transactions). No offsetting forward transaction will be allowed by the Bank if the investor is no longer a PI or PBC. In this respect, if no offsetting forward transaction is entered into by the investor (who must at the time be a PI and PBC) by 5pm Hong Kong Time on the third FX Gold / Silver Trading Day prior to the settlement date of an Initial Forward Contract to net off that Initial Forward Contract, the Bank has the right and authority (but not the obligation) to enter into any offsetting contract(s) at such time determined by the Bank in its absolute discretion so that the quantity of FX Gold or Silver to be delivered by the investor or the Bank to each other under that Initial Forward Contract is zero. If the Bank fails to enter into any offsetting contract to net off that Initial Forward Contract so any credit or debit of FX Gold or Silver under that Initial Forward Contract is required to be made to any Account of the investor, the Bank has the further right and authority (but not the obligation) to enter into any contract(s) on Paper Gold or Silver for the investor at such time determined by the Bank in its absolute discretion so that the aforementioned credit or debit of FX Gold or Silver into the investor's account under that Initial Forward Contract is completely and fully offset. In each of the aforementioned events, the investor will be responsible for all costs, losses and expenses (whether direct, indirect or consequential) suffered or incurred by the Bank together with all the associated fees and charges and the Bank has the further right and authority (but not obligation) to debit such sum of money from any account of the investor with the Bank to settle the same.

  "**FX Gold / Silver Trading Day**" means A day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments and are open for business (including dealings in foreign exchange and foreign currency deposits) in the Business Centres and which is also a scheduled trading day in the FX Gold / Silver market in London (meaning a day on which such markets are ordinarily open).

  "Business Centres" means London, Hong Kong and as applicable to the settlement currency.

- **Structured Notes**

  Paper Gold and Silver may be used as underlying for Structured Notes. In this Product Booklet, we explain the key product features, mechanism and certain product risks of 2 popular variations of Paper Gold-/Silver-linked Notes. The Bank may introduce more variations of Structured Notes using Paper Gold and Silver as underliers. The relevant Product Summary Sheet and Indicative Term-sheet will be provided to prospective investors before the intended transaction.

- **OTC Options**

  Investors may Buy / Sell the following OTC Options on Paper Gold and Silver from / to the Bank:

  ✓ OTC Call / Put Options

  ✓ OTC Call / Put Options with American Knock-out

  ✓ OTC Call / Put Options with American Knock-in

- ✓ OTC Call / Put Options with European Knock-in
- ✓ OTC Call / Put Options with American Knock-out and American Knock-in
- ✓ OTC Call / Put Options with American Knock-out and European Knock-in

Investors who sell OTC Options may sell on a Covered Basis or Margined Basis.

The Bank will benefit from your entering into this transaction ("Transaction"). For the monetary and non-monetary benefits receivable and fees and charges collected by the Bank in this Transaction, please refer to the "Bank Charges Schedule" and the notice "Supplementary Fee Schedule with disclosure of monetary and non-monetary benefits receivable by DBS Bank (Hong Kong) Limited" (together "Fee Schedule") which was previously provided to you or consult your Relationship Manager.

Investor Suitability

Based on the investor's Investment Risk Profile as determined by the DBS Investment Objective Setting ("IOS") questionnaire, the Investor Suitability for the various Products described in this Product Booklet is as follows:

If your Investment Risk Profile is:	And:	Products that you may consider:
LOW RISK	The Products described in this Product Booklet are not suitable for investors with LOW RISK Investment Risk Profile.	
MEDIUM RISK	You **DO NOT** possess Derivative knowledge	✓ Spot transactions in Paper Gold.
	You **DO** possess Derivative knowledge	✓ Spot transactions in Paper Gold. ✓ Structured Notes in Paper Gold with maximum tenor of 1 year. ✓ Buy any OTC Options on Paper Gold with tenor up to 1 year.* ✓ Sell any OTC Options on Paper Gold on Covered Basis with tenor up to 1 year.* ✓ Buy Forward on Paper Gold on Covered Basis with tenor up to 1 year * ✓ Sell Forward on Paper Gold for offsetting purposes with maximum tenor of 1 year *
HIGH RISK	You **DO NOT** possess Derivative knowledge	✓ Spot transactions in Paper Gold and Silver.
	You **DO** possess Derivate knowledge	✓ Spot transactions in Paper Gold and Silver. ✓ Buy Forward on Paper Gold and Silver on Covered or Margined Basis, with tenor up to 1 year.* ✓ Sell Forward on Paper Gold and Silver for offsetting purposes or on a Margined Basis, with tenor up to 1 year.* ✓ Structured Notes on Paper Gold and Silver with maximum tenor of 1 year ✓ Buy or Sell any OTC Options on Paper Gold and Silver with tenor up to 1 year *

* Exceptional Approval is required for transaction of OTC Options and Forward on Paper Gold and Silver with tenor longer than 1 year. Investors should refer to the corresponding Product Summary Sheet for the Product Risk Rating of OTC Options and Forward on Paper Gold and Silver with tenor longer than 1 year.

Key Product Risks

This section provides a (non-exhaustive) summary of the key risks of investing in the Products. Please refer to the Risk Factors in the Indicative Term-sheet (where applicable) for a detailed description of the risks. Please also refer to the applicable Product Summary Sheet.

General Product Risks

- Transactions involving Commodities (" **Commodity Transactions**") are not equivalent to time deposits. They are not protected deposits and are not protected by the Deposit Protection Scheme in Hong Kong.
- The credit balance of any Commodity held in any account you have with the Bank represents indebtedness owing from the Bank to you. Notwithstanding that such credit balances may be expressed in units of a Commodity in your monthly consolidated statements, such balances do not represent Commodity in physical form and the Bank will not issue any certificates to the investor in respect of any holding of Commodity.
- The Bank acts as principal in all Commodity Transactions, including but not limited to the sale and purchase of any Commodities you may have in any applicable account with the Bank. In this regard, all obligations to be performed by us shall be subject to the laws of Hong Kong.
- The Commodities market is volatile and any investments in Commodities are subject to price fluctuations which may provide both opportunities and risks. Past performance of a Commodity is not indicative of future results as prices of the Commodity can go up or down. If the relevant Commodity prices drops, your account may suffer losses and this could be the whole of the amount in the account.
- There may be adjustments to the terms of your Commodity Transactions due to events including but not limited to market disruption, insolvency and changes in any applicable laws and such adjustments may reduce the amount receivable by you.
- The Bank will not make or receive any physical delivery of any Commodity in whatever form under any circumstances and you will not be permitted to make any physical Commodity purchases or Commodity sales to or from any account you have with the Bank (even upon closure of such account), other than in accordance with the Terms and Conditions and upon such terms as we may stipulate from time to time. For the avoidance of doubt, you shall have no interest, proprietary or otherwise, in any Commodity, whether held by us, or by our agents and/or custodians, whether on your behalf or otherwise.
- Your operation and utilisation of your applicable accounts with the Bank will be governed by the applicable Terms and Conditions.
- In maintaining Commodity in your account with the Bank, you are taking on and are subject to the credit risk of the Bank.
- There may be significant risks, including but not limited to liquidity risks and other significant risk factors of a complex character, that you should consider based on each specific transaction entered into.
- In evaluating the risks and contractual obligations associated with a particular transaction, you should also consider that an over-the-counter bilateral transaction may be modified or terminated only by mutual consent and subject to agreement on individually negotiated terms. Accordingly, it may not be possible for you to modify, terminate or offset your obligations or your exposure to the risks associated with a transaction prior to its agreed termination.
- **Market risk**

  There is a general risk of market failure which arises from political or financial or macro-economic developments.
- **Interaction Risk**

  Different types of risks may interact unpredictably, particularly in times of market stress.
- **Concentration Risk**

  The investor should be satisfied that he has the risk appetite for, and is not over exposed to, the relevant Commodity or any other structured Commodity-linked transactions of a similar nature.
- **Legal and Enforcement risk**

  If the Bank defaults on its obligations under the transaction as a result of credit failure, this will lead to consequential legal and enforcement problems.
- **Suspension or Restriction of Trading**

  Market conditions (e.g. illiquidity) or the operation of the rules of certain markets may increase the risk of loss by making it difficult or impossible to effect transactions or liquidate/offset positions.
- **Trading facilities**

Most open-outcry and electronic trading facilities are supported by computer-based component systems for the order-routing, execution, matching, registration or clearing of trades. As with all facilities and systems, they are vulnerable to temporary disruption or failure. The investor's ability to recover certain losses may be subject to limits on liability imposed by the one or more parties, namely the system provider, the market, the clearing house or member firms. Such limits may vary. If the investor undertakes transactions on an electronic trading system, he will be exposed to risks associated with the system including the failure of hardware and software. The result of any system failure may be that the investor's order is either not executed according to his instructions or not executed at all.

- **Investor Suitability**

  A prospective investor in any commodity transaction should be experienced with dealing in these types of Products, be familiar with the terms used in the Term-sheet, Confirmation, and applicable ISDA Definitions, and should understand the risks associated with dealing in such Products. A prospective investor should reach an investment decision only after careful consideration, with the advisers (where appropriate), of the suitability of the commodity transaction in light of their particular financial position, experience, objectives and other relevant circumstances, the terms and conditions applicable to this Product (including margin requirements, if applicable), the particular underlying Commodity to which the transaction relates, any related transaction costs, and the creditworthiness of the counterparty. A prospective investor should ensure that they have the ability to withstand any potential financial loss.

- **Potential Conflicts of Interest**

  The Bank and its affiliates play a variety of roles in connection with Commodity transactions, including acting as counterparty and calculation agent and hedging its obligations under the Commodity transaction. The Bank and its affiliates may also enter into, adjust and unwind transactions relating to the relevant Commodity, whether for its or its affiliates' proprietary accounts or for accounts under management or to facilitate transactions on behalf of other counterparties or otherwise. In carrying out these roles, the Bank' economic interests and those of its affiliates may be potentially against the investor's interests as the counterparty in the Commodity transaction.

- **RMB Currency risk**

  The renminbi is the official currency of the People's Republic of China. The literally means "people's currency". The currency code for renminbi which may also be used for the yuan is CNY (an abbreviation for "Chinese yuan") when traded onshore in Mainland China, or also CNH when traded in offshore markets such as Hong Kong, Singapore, London, New York.

  Fluctuations in the exchange rate may adversely affect the investment return when the investors convert the proceeds to the original currency.

  RMB may not be freely convertible and is subject to Mainland China's exchange controls and restrictions.

  Products will be subject to multiple currency conversion costs involved in making investments and liquidating investments or meeting other settling or operating expenses if the products are not denominated, or if the underlying investments are not denominated, in RMB.

  When calculating the payoff/ value of the RMB products, the offshore RMB (the "CNH") will be used. The CNH rate may be at a premium or discount to the exchange rate for onshore RMB (the "CNY") and there may be significant bid and offer spreads. While CNH and CNY represent the same currency, they are traded in different and separate markets which operate independently. As such, CNH does not necessarily have the same exchange rate and may not move in the same direction as CNY.

<u>Commodity Transactions where the underlier is Paper Gold or Silver</u>

- **Delivery of Paper Gold or Silver**

  If Paper Gold or Silver is expressed to be deliverable under the applicable Paper Gold or Silver Transaction, or if Paper Gold/Silver is expressed to be received by the investor, such delivery will only be reflected by way of a credit to the investor's account. The Bank will not make or receive any physical delivery of any Gold or Silver in whatever form to or from the account.

- **Paper Gold or Silver risk**

  The investor will be exposed to the volatility of the various Gold/ Silver markets and political and other risks in the various jurisdictions in which the Paper Gold/ Silver is traded. In particular, the price of the Gold or Silver may experience downward movements and may under some circumstances even become valueless. There is therefore an inherent risk that losses rather than profits may be incurred as a result of buying or selling the Paper Gold/ Silver.

  Changes in the Spot Rate of Gold or Silver (as the case may be) can be unpredictable, sudden and large. Such changes may result in the price or value of the Paper Gold/ Silver Transaction moving adversely against the investor's interests and negatively impacting upon the return on, or settlement of, the Paper Gold/ Silver Transaction. In extreme circumstances, the investor may lose all, or a significant proportion of, the Paper Gold/ Silver Transaction contract amount.

- **Past Performance**

  Past performance of the underlying Gold/ Silver is not necessarily a guide as to future performance. The value of the investment and the income derived from it can go down as well as up.

Risks of Derivatives (Forward, Structured Notes, and OTC Options)

- **Mark-to-Market Risk**

  Investor bears the downside risk of the Product's price fluctuation. If the price of the underlying Commodity does not perform as expected, the investor will bear a mark-to-market ("MTM") loss in valuation. The Bank has the right to determine the daily MTM valuation at its sole discretion and investor bears the risk of daily MTM fluctuation in valuation.

  MTM of Structured Notes and OTC Options

  The MTM value of Structured Notes and OTC Options are calculated by an option pricing model based on various factors including but not limited to current spot rate, time-to-maturity, volatilities, strike rate, risk-free interest rate~~.~~ Hence, the MTM value may be significantly different from the value of the Products calculated by simple arithmetical methods by reference to the difference between the strike rate and the spot rate.

  The investor needs to be aware that the Product's price may deteriorate as a result of an increase in implied volatility. This could arise even if the price of the underlying Commodity remains unchanged, or even performs as expected.

- **Tenor**

  The investor should take note of the tenor of the Product. The investor should further note that any Product or transaction with a long tenor tends to be associated with higher risks and early termination, if permitted at the sole and absolute discretion of the Bank, will usually involve higher costs.

- **Liquidity Risk**

  The Product has limited or non-existent secondary market liquidity. It may be difficult, or impossible, for the investor to sell or dispose of the Product prior to its maturity date.

- **Leveraging Risk**

  The degree of leverage can work for as well as against the investor. Due to the leverage, a small movement in the market can lead to a major gain but any losses will also be magnified sharply. Leveraging may be by way of a loan, trading on a margin, or embedded within an instrument. The Bank's terms relating to top-up and close-out will apply and the investor may be required at short notice to provide additional margin failing which outstanding transactions may be closed out at a significant loss.

- **Credit Risk**

  Investor has to bear the credit risk of the Product's counterparty or the issuer (if applicable). In the case of Forwards and OTC Options, the potential maximum loss will not be limited to the amount the investor places with the Bank as initial margin requirement.

- **Options risk**

  Transactions in OTC Options carry a high degree of risk. Purchasers and sellers of Options should familiarise with the type of options (i.e. put or call) which they contemplate trading and the associated risks. The purchaser of Options may offset his position by trading in the market or exercise the options or allow the options to expire. Where an Option has a knock-in feature, the exercise rights thereunder will only arise if the Spot Rate reaches the barrier during the specified time period. If the purchased Options expire worthless, the investor will suffer a total loss of his investment which will consist of the Option premium paid plus transaction costs. Selling an Option generally entails considerably greater risk than purchasing Options. Although the premium received by the seller is fixed, the seller may sustain a loss well in excess of the amount of premium received.

- **Risk reducing orders or strategies**

  Placing contingent orders, such as "stop-loss" or "stop-limit" orders, will not necessarily limit losses to the intended amounts. Market conditions may make it impossible to execute such orders, and the investor may be called upon at short notice to deposit additional collateral. The investor shall remain liable for any resulting deficit in his account.

- **Delivery Risk**

  An investor who transacts a Product on margin will need to provide funding for the delivery of the required currency on each Settlement Date, up to the Maximum Notional Amount of the Product (in the case of a forward or OTC Option), which is substantially more than the amount placed as initial margin requirement.

- **Hedging Risk**

  The investor should be aware that a Product with knock-out feature or other features to cap the upside (where applicable) may not serve his intended hedging purpose.

- **Margin Requirement Risk**

  The Bank reserves the right to review and revise the initial margin from time to time during the tenor of a Product, including demanding a 100% initial margin. Upon such review, the investor may be subjected to a significantly higher margin requirement than that required at the point of transacting.

- **Margin Calls**

  An investor who transacts a Product on margin may be subject to margin calls if the Bank deems that the collateral is insufficient to cover the total amount of the initial margin requirement and the MTM loss. This may arise as a result of various factors, including a deterioration of the market price of the Product or the underlying Commodity, losses arising from closed out transactions, or a higher initial margin, or a combination of them. The investor will be required to rectify or settle the margin call within such period as may be specified by the Bank. Failure to meet any margin call may result in outstanding transactions being closed out without consent from the investor at significant losses and costs. The Bank may also realise such part or all of the collateral as the Bank deems necessary in accordance with the terms of the relevant security documents to satisfy the liabilities of the investor.

- **Worst case scenario**

  The investor may lose all, or a significant proportion of the amount invested.

SPOT TRANSACTIONS ON PAPER GOLD AND SILVER

This section explains the key Product features and mechanism of Spot transactions on Paper Gold and Silver.

Product Description

Investor may enter into Spot transactions on Paper Gold and Silver with the Bank to directly participate in the price movements of these commodities. The Spot transactions may be effected in USD, AUD, HKD, and SGD based on the spot price of Paper Gold and Silver in those respective currencies.

The Paper Gold and Silver held by investors are represented by credit balances in the investors' account with the Bank. Similar to the credit balances of other currencies that the investor holds with the Bank, and notwithstanding that such credit balances are expressed in units of gold or silver, the credit balance of Paper Gold and Silver in the applicable account of the investor represents indebtedness of the Bank to the investor. Such balances do not entitle the investor to gold or silver in physical form.

For Paper Gold or Silver, the units that balances in each account is calculated in are one fine troy ounce of gold and one troy ounce of silver based upon a 995 fine London Good Delivery gold bar, and a 999 fine London Good Delivery silver bar. Such units of measure are for reference only.

Product Features

Investor may buy Paper Gold and Silver on a Spot basis from the Bank. Investor will enjoy a gain if the price of the Paper Gold or Silver appreciates, but will suffer a loss if the price of the Paper Gold or Silver depreciates.

Investor may sell their holdings of Paper Gold and Silver to the Bank on a Spot basis. Short-selling on a Spot basis is not offered.

Product Example

A. <u>Spot Buy</u>

Investor buys (a "Buy Transaction") 1,000 oz of Paper Gold at USD1,250.00 per oz.

Two business days after the Buy transaction, the Bank will debit USD1,250,000.00 (1,000 oz at USD1,250.00 per oz) from the investor's USD account, and the Bank will credit the investor's account with 1,000 oz of Paper Gold. Such settlement will take place only by way of a debit/credit to the investor's account. No physical settlement of Spot Transactions will take place.

On each month-end statement, the 1,000 oz of Paper Gold will be valued using the prevailing market price of Paper Gold in USD, regardless of the currency used to settle the purchase.

B. <u>Spot Sell</u>

At anytime after the Buy transaction in (A) above, investor may enter into a Spot sell transaction (a "Sell Transaction") to sell up to 1,000 oz of Paper Gold to the Bank at the prevailing market price.

(i) Say, 1 month after the purchase, the price of Paper Gold has appreciated to USD1,300, and the investor decided to sell part of his / her holdings, say, 400 oz.

Two business days after the Sell transaction, the Bank will debit 400 oz of Paper Gold from the investor's account, and the Bank will credit USD520,000.00 to the investor's USD account.

(ii) Say, 6 months after the purchase, the price of Paper Gold has depreciated to USD1,000, and the investor decided to sell his / her remaining holdings of 600 oz.

Two business days after the Sell transaction, the Bank will debit 600 oz of Paper Gold from the investor's account, and the Bank will credit USD600,000 to the investor's USD account.

In each case, settlement will take place only by way of a debit/credit to the investor's account. No physical settlement of Spot Transactions will take place.

Worst Case Scenario

Investors should note the risks of buying-and-holding Paper Gold and Silver. If the price of the Paper Gold or Silver falls substantially, the loss to the investor may be substantial, including the potential to lose up to 100% of the purchase amount if the price of Paper Gold and Silver falls to zero, or if the Bank defaults on its obligations.

FORWARD TRANSACTIONS ON FX GOLD AND SILVER

This section explains the key Product features and mechanism of Forward transactions on FX Gold and Silver.

Product Description

Forward transactions are contracts between investor and the Bank whereby the investor commits to take delivery (for Buy transactions) or deliver (for Sell transactions) the FX Gold and Silver at a future date that is more than 2 business days. Settlement of Forward transactions will take place only by way of a debit/credit to the applicable account of the investor. No physical settlement of Forward Transactions will take place.

Investor may enter into Forward transactions on FX Gold and Silver with the Bank to directly participate in both upward and downward price movements of these commodities. The Forward transactions may be effected in USD, AUD, HKD, and SGD based on the forward price of FX Gold and Silver in those respective currencies.

Investors should take note that forward transactions on FX Gold and Silver must be offset by matching contracts with the same quantity and settlement date, such that only the difference in settlement currency amounts of both contracts are settled.

Product Features

Investors may Buy or Sell FX Gold and Silver on a Forward basis from the Bank. The investor will enjoy a gain if the price of Gold or Silver performs as expected, i.e., appreciates, if the investor bought the Commodity, or depreciates, if the investor sold the Commodity. However, the investor will suffer a loss if the price of Gold or Silver does not perform as expected, that is, if the investor has bought the Commodity, if the Commodity price depreciates, or, if the investor has sold the Commodity, if the Commodity price appreciates.

Investor may use Forward transactions to short-sell Gold and Silver, i.e., selling of Gold and Silver the investor does not own, or expects to own at a future date. This will provide the investor with the opportunity to gain from downward price movements of Gold and Silver. It also provides the investor the ability to hedge against expected downward price movements of gold and silver in respect of Paper Gold and Silver to be delivered from Structured Notes or OTC Options on Paper Gold and Silver.

Product Risks specific to Gold / Silver Forwards

Before entering into a Gold / Silver Forward, the investor should hold a view (positive or negative) on the price of the underlying Gold / Silver up to the tenor of the forward transaction. Any gain or loss arising from the forward transaction will be realized on the maturity date of the forward transaction.

Forward transactions on FX Gold and Silver must be offset by matching contracts with the same quantity and settlement date, such that only the difference in settlement currency amounts of both contracts are settled. To close-out an Initial Forward Contract on FX Gold or Silver, an investor (who must be PI and PBC) is required to enter into one or more offsetting contracts by 5pm Hong Kong Time on the third FX Gold / Silver Trading Day prior to the settlement date to net off that Initial Forward Contract, such that on the settlement date of that Initial Forward Contract, the net quantity of FX Gold or Silver to be delivered by the investor or the Bank to each other under that Initial Forward Contract is zero. If the investor does not do so by such time, the Bank has the right and authority (but not the obligation) to enter into any offsetting contract(s) at such time determined by the Bank in its absolute discretion so that the quantity of FX Gold or Silver to be delivered by the investor or the Bank to each other under that Initial Forward Contract is zero; and the investor will be responsible for all associated costs, losses and expenses (whether direct, indirect or consequential) suffered or incurred by the Bank together with all associated fees and charges and the Bank has the further right and authority (but not the obligation) to debit such sum of money from any account of the investor with the Bank to settle the same.

An investor must be a PI and PBC when he/she enters into any forward transactions (including offsetting forward transactions). No offsetting forward transaction will be allowed by the Bank if the investor is no longer a PI or PBC. In this aspect, if no offsetting forward transaction is entered into by the Investor (who must at the time be a PI and PBC) by 5pm Hong Kong Time on the third FX Gold / Silver Trading Day prior to the settlement date of an Initial Forward Contract to net off that Initial Forward Contract, the Bank has the right and authority (but not the obligation) to enter into any offsetting contract(s) at such time determined by the Bank in its absolute discretion so that the quantity of FX Gold or Silver to be delivered by the investor or the Bank to each other under that Initial Forward Contract is zero; and if the Bank fails to enter into any offsetting contract to net off that Initial Forward Contract so any credit or debit of FX Gold or Silver is made to any Account of the investor, the Bank has the further right and authority (but not the obligation) to enter into any contract(s) on Paper Gold or Silver for the Investor at such time determined by the Bank in its absolute discretion so that the aforementioned credit or debit of FX Gold or Silver into the investor's account is completely and fully offset. In any of the aforementioned event, the investor will be responsible for all costs, losses and expenses (whether direct, indirect or consequential) suffered or incurred by the Bank together with all the associated fees and charges and the Bank has the further right and authority (but not obligation) to debit such sum of money from any account of the investor with the Bank to settle the same.

Margin Requirement

If the Product is transacted on a margined basis, the investor will deposit the margin requirement *(based on an indicative initial margin of 12% for Gold Forward and 25% for Silver Forward, or such other percentage as the Bank may stipulate from time to time)* with the Bank. During the life of the Forward, the investor will be required to provide additional collateral for the MTM loss.

Product Example

A. Sell Forward for Speculation

The current market price of Gold is USD1,300.00 per oz. Investor expects the price to depreciate.

Investor Sells 1,000 oz of FX Gold for 1-month Forward at Forward price of USD1,298.00 per oz (Contract #1).

Three business days before the settlement date of the Forward transaction, say, the price of Gold depreciates as expected to USD1,200.00 per oz. Investor will Buy 1,000 oz of FX Gold at the prevailing market price for the same settlement date as the Forward transaction (Contract #2).

(If the investor does not enter into Contract #2, the Bank may enter into Contract #2 , as more particularly described above)

On the settlement date of both contracts:

- For the Contract #1: The Bank will debit 1,000 oz of FX Gold from the investor's account, and credit USD1,298,000.00 (1,000 oz at USD1,298.00 per oz) to the investor's USD account.
- For the Contract #2: The Bank will credit 1,000 oz of FX Gold to the investor's account, and debit USD1,200,000.00 from the investor's USD account.

After the settlement, the investor will have no holdings in FX Gold, and will receive the net difference of USD98,000.00 between the two contracts.

B. Sell Forward for Hedging

The current market price of Gold is USD1,300.00 per oz. An investor previously invested in a Gold-linked Note on 1,000 oz of Gold with Strike Price of USD1,300.00 that will mature in 1-months' time. The investor expects the price to depreciate.

The investor Sells 1,000 oz of FX Gold for 1-month Forward at Forward price of USD1,298.00 per oz (Contract #1), with same settlement date as the maturity date of the Gold-linked Note.

Two business days before the Maturity Date of the Gold-linked Note and the settlement date of the Forward transaction, say, the price of Gold depreciates as expected to USD1,200.00 per oz. The Gold-linked Note will be exercised and the investor will receive delivery of 1,000 oz of Paper Gold from the Gold-linked Note to his/her account.

To effect the hedge, the investor will enter into a pair of Spot transactions to settle his / her positions in Paper Gold and FX Gold in his/her account:

1. Paper Gold

Received delivery of 1,000 oz of Paper Gold at Strike Price of USD1,300.00 from exercise of Gold-linked Note in the investor's account.

Investor will SELL 1,000 oz of Paper Gold on Spot basis at USD1,200.00 per oz from his account (Contract #2).

Investor will suffer a loss of USD100,000.00 on the Paper Gold.

2. FX Gold

Investor has a Forward Sell contract on 1,000 oz of FX Gold at USD1,298.00.

Investor will BUY 1,000 oz of FX Gold on Spot basis at USD1,200.00 per oz (Contract #3).

After trade settlement from the investor's account, the investor will enjoy gains of USD98,000

The Sell Forward contract has protected the investor from price depreciation on Paper Gold to be delivered from the Gold-linked Note.

C. Multiple Offsetting Forward Transactions

Investor has the flexibility to enter into multiple offsetting forward transactions for each forward transaction.

The current market price of Gold is USD1,300.00 per oz. Investor expects the price to depreciate.

Investor Sells 1,000 oz of FX Gold for 1-month Forward at Forward price of USD1,298.00 per oz (Contract #1).

1 week later, the price of Gold has fallen to USD1,250.00 per oz. Investor enters into an offsetting forward transaction for 600 oz (Contract #2) by buying 600 oz of FX Gold at Forward price of USD1,250.00 per oz for the same settlement date as Contract #1.

Another week later, the price of Gold has fallen further to USD1,230.00 per oz. Invester enters into another offsetting forward transaction for the remaining 400 oz (Contract #3) by buying 400 oz of FX Gold at Forward price of USD1,230.00 per oz for the same settlement date as Contract #1.

On the settlement date of all 3 contracts:

- For the Contract #1: The Bank will debit 1,000 oz of FX Gold from the investor's XAU account, and credit USD1,298,000.00 (1,000 oz at USD1,298.00 per oz) to the investor's USD account.
- For the Contract #2: The Bank will credit 600 oz of FX Gold to the investor's XAU account, and debit USD750,000.00 from the investor's USD account.
- For the Contract #3: The Bank will credit 400 oz of FX Gold to the investor's XAU account, and debit USD492,000.00 from the investor's USD account.

After the settlement, investor will have no holdings in FX Gold, and will receive net difference of USD56,000.00 from the three contracts.

Worst Case Scenario

Investors should note the risks of Forward transactions on FX Gold and Silver.

If the investor is the buyer of the Forward transaction, and if the price of Gold or Silver falls substantially, the loss to the investor may be substantial, including the potential to lose up to 100% of the contract's notional amount if the price of Gold and Silver falls to zero.

If the investor is the seller of the Forward transaction, and if the price of Gold or Silver rises substantially, the loss to the investor may be unlimited, including the potential to lose more than the contract's notional amount if the price of Gold and Silver rises more than 100%.

The investor also takes on the credit risk of the Bank. The investor has the potential to lose up to 100% of the contract's notional amount if the Bank defaults on its obligations.

If the Forward transaction is entered on a margined basis, the potential loss is not limited to the amount placed as margin.

STRUCTURED NOTES ON PAPER GOLD AND SILVER

This section explains the key Product features and mechanism of 2 variations of Structured Notes on Paper Gold and Silver:

- Gold-linked Note ("GLN") and Silver-linked Note ("SLN")
- Knock-out Gold-linked Note ("KO GLN") and Knock-out Silver-linked Note ("KO SLN")

Gold-linked Note and Silver-linked Note

Product Description

A GLN / SLN is a debt instrument embedded with a Short Put option on an underlying Commodity that enables an investor to receive an enhanced yield in exchange for taking on the downside risk of the underlying.

In a typical GLN / SLN structure, the investor receives an enhanced yield that is fixed at time of investing. A few days before the Maturity Date of the GLN / SLN, known as the Valuation Date, the Note-issuer will compare the Spot Price of the underlying Commodity against the GLN / SLN's Strike Price.

- If the Spot Price is at or above the Strike Price, the investor will receive his/her principal and yield back in cash.
- However, if the Spot Price is below the Strike Price, the investor will receive his/her Principal Amount and yield back in the underlying Gold or Silver, as applicable, by way of a credit to the investor's account. No physical settlement of gold/silver will take place.

Product Features

A GLN / SLN typically offers higher yield than an ordinary Fixed Deposit. However, the investor must be prepared to take delivery of the underlying Commodity on the Maturity Date when the Spot Price is lower than the Strike Price by way of a credit to the investor's account. The investor will thus, be subject to the same market risks as if he had actually bought the underlying Commodity.

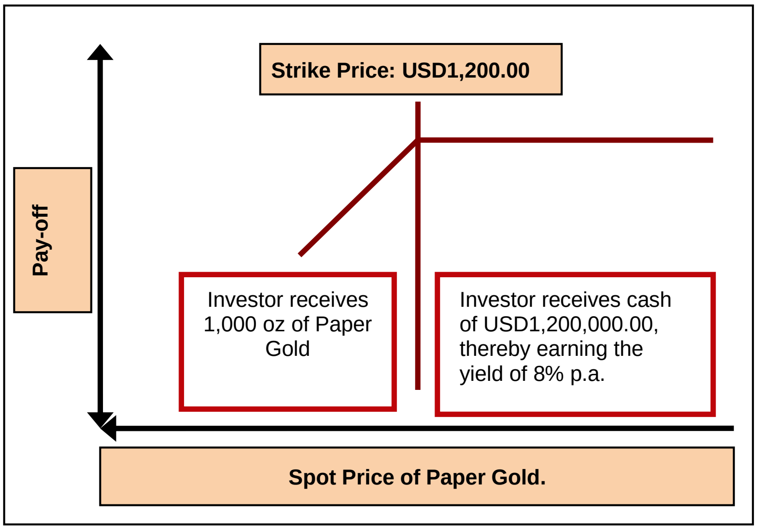
A GLN / SLN can be easily tailored to the investor's specific request, in terms of the selection of the underlying Commodity, Tenor, and Strike Price.

Product Example

In practice, GLN / SLN are traded on a discounted principal basis, i.e., the investor pays a discounted price when buying the GLN / SLN, and receives the full amount on maturity. The price discount is the Yield of the Product.

An investor purchases a GLN on 1,000 oz of Paper Gold. The Tenor is 1 month, and the Strike Price is set at USD1,200.00 when the Market Price is USD1,250.00. The agreed yield between the Bank and investor is 8% p.a.

- 1,000 oz of Paper Gold at Strike Price of USD1,200.00 = USD1,200,000.00
- Notional Amount of GLN = USD1,200,000.00
- Settlement Amount to pay for purchase = USD1,192,052.98
- Discount = USD 7,947.02
- Yield = (Discount / Settlement Amount) = 0.67%
- Tenor of Product = 1 month, or 30 days between Settlement Date and Maturity Date
- Annualized Yield = (Yield x 360 / 30) = 8.00% p.a.



On the Valuation Date, the Note-issuer will compare the Spot Price of the underlying Commodity with the GLN's Strike Price.

- If the Closing Price is at or above USD1,200.00, the investor will receive cash of USD1,200,000.00, the Notional Amount on the Maturity Date.

- If the Closing Price is below USD1,200.00, the investor will receive 1,000 oz of Paper Gold by way of credit to the investor's account. The invested amount of USD1,192,052.98 has been used to pay for the purchase of 1,000 oz of Paper Gold, which translates into an effective purchase cost of USD1,192.05 per oz.

Worst Case Scenario

Investors should note the risks of Gold-linked Notes / Silver-linked Notes.

During the tenor of the GLN / SLN, the investor is taking on the credit risk of the Note issuer. The investor has the potential to lose up to 100% of the GLN / SLN's notional amount if the Note issuer and/ or the Bank default(s) on its/ their obligations.

If the price of Paper Gold or Silver falls substantially, the loss to the investor may be substantial, including the potential to lose up to 100% of the GLN / SLN's notional amount if the price of Gold and Silver falls to zero.

Knock-out Gold-linked Note and Knock-out Silver-linked Note

Product Description

A KO GLN / KO SLN is a debt instrument embedded with a Short Put option with American style Up-and-out Knock-out on an underlying Commodity that enables an investor to receive an enhanced yield in exchange for taking on the downside risk of the underlying.

In a typical KO GLN / KO SLN structure, the investor receives an enhanced yield that is fixed at time of investing.

During the tenor of the Note, from the Trade Date to the Valuation Date, the Note is early terminated if the Knock-out Price is triggered. Upon early termination, the Note's maturity amount will be returned to the investor 2 business days after the Knock-out Event is triggered.

If the Knock-out Event is not triggered throughout the tenor of the Note, then a few days before the Maturity Date of the KO GLN / KO SLN, known as the Valuation Date, the Note-issuer will compare the Spot Price of the underlying Commodity against the KO GLN / KO SLN's Strike Price.

- If the Spot Price is at or above the Strike Price, the investor will receive his/her principal and yield back in cash.
- However, if the Spot Price is below the Strike Price, the investor will receive his/her Principal Amount and yield back in the underlying Gold or Silver, as applicable by way of a credit to the applicable account of the investor. No physical settlement of gold/silver will take place.

Product Features

The KO GLN / KO SLN typically offers a higher yield than an ordinary Fixed Deposit. However, the investor must be prepared to take delivery of the underlying Commodity on the Maturity Date when the Spot Price is lower than the Strike Price by way of a credit to the applicable account of the investor. The investor will hence be subject to the same market risks as if he had actually bought the underlying Commodity.

A KO GLN / KO SLN can be easily tailored to the investor's specific request, in terms of the selection of the underlying Commodity, Tenor, Strike Price, and Knock-out Price.

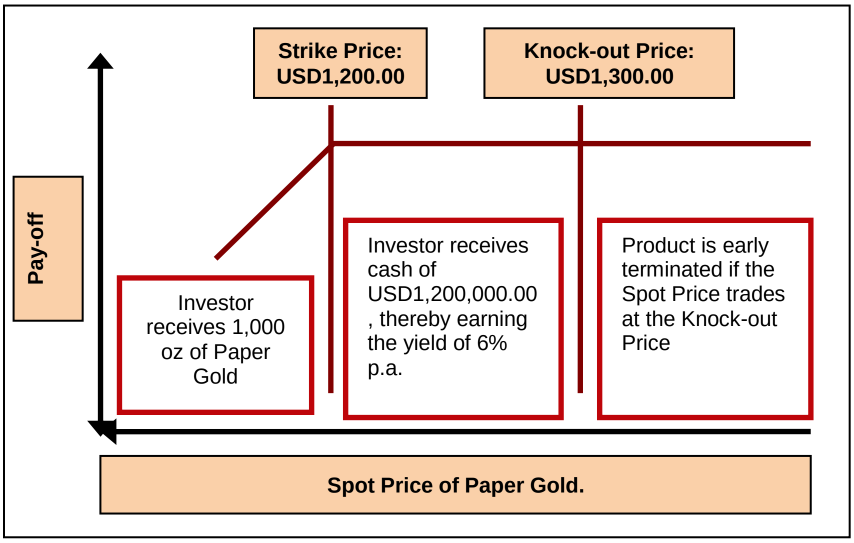
Product Example

In practice, KO GLN / KO SLN are traded on a discounted principal basis, i.e., the investor pays a discounted price when buying the KO GLN / KO SLN, and receives the full amount on maturity. The price discount is the Yield of the Product.

An investor purchases a KO GLN on 1,000 oz of Paper Gold. The Tenor is 1 month, the Strike Price is set at USD1,200.00 and the Knock-out Price is set at USD1,300.00 when the Market Price is USD1,250.00. The agreed yield between the Bank and investor is 6% p.a.

- 1,000 oz of Paper Gold at Strike Price of USD1,200.00 = USD1,200,000.00
- Notional Amount of KO GLN = USD1,200,000.00
- Settlement Amount to pay for purchase = USD1,194,029.85
- Discount = USD5,970.15
- Yield = (Discount / Settlement Amount) = 0.50%

- Tenor of Product = 1 month, or 30 days between Settlement Date and Maturity Date
- Annualized Yield = (Yield x 360 / 30) = 6.00% p.a.



A. Knock-out Event is triggered

If the Spot Price trades at the Knock-out Price anytime during the tenor of the KO GLN, the Note will early terminate. The investor will receive the maturity amount of USD1,200,000.00 2 business days after the Knock-out Event is triggered.

The absolute Yield to the investor is 0.50%, but, depending on the actual holding period of the KO GLN, the Annualised Yield may be significantly higher.

Example: the Knock-out Event is triggered 10 days after the start the KO GLN. Based on the 10-day holding period, the Annualised Yield will be 18% p.a. (0.50% x 360 / 10).

B. Knock-out Event is NOT triggered

If the Knock-out Event is not triggered, then on the Valuation Date, the Note issuer will compare the Spot Price of the underlying Commodity with the KO GLN's Strike Price.

- If the Closing Price is at or above USD1,200.00, the investor will receive cash of USD1,200,000.00, the Notional Amount on the Maturity Date.
- If the Closing Price is below USD1,200.00, the investor will receive 1,000 oz of Paper Gold by way of credit to the investor's account. The invested amount of USD1,192,052.98 has been used to pay for the purchase of 1,000 oz of Paper Gold, which translates into an effective purchase cost of USD1,192.05 per oz.

Worst Case Scenario

Investors should note the risks of Knock-out Gold-linked Notes / Knock-out Silver-linked Notes.

During the tenor of the KO GLN / KO SLN, the investor is taking on the credit risk of the Note issuer. The investor has the potential to lose up to 100% of the KO GLN / KO SLN's notional amount if the Note issuer and/ or the Bank defaults on it(s)/ their obligations.

If the price of Paper Gold or Silver falls substantially, the loss to the investor may be substantial, including the potential to lose up to 100% of the KO GLN / KO SLN's notional amount if the price of Gold and Silver falls to zero.

OTC OPTIONS ON PAPER GOLD AND SILVER

This section explains the key Product features and mechanism of the following OTC Options on Paper Gold and Silver:

- OTC Call Option
- OTC Call Option with American Knock-out
- OTC Call Option with American Knock-in
- OTC Call Option with European Knock-in
- OTC Call Option with American Knock-out and American Knock-in
- OTC Call Option with American Knock-out and European Knock-in
- OTC Put Option
- OTC Put Option with American Knock-out
- OTC Put Option with American Knock-in
- OTC Put Option with European Knock-in
- OTC Put Option with American Knock-out and American Knock-in
- OTC Put Option with American Knock-out and European Knock-in

OTC Call Option

Product Description

A Call Option is a vanilla option that gives the buyer of the option (a Long Call) the right but not the obligation to buy the Underlying Paper Gold/ Silver at a pre-determined price, called the Paper Gold/ Silver's Strike Price, within a certain period of time. The investor is required to pay a premium at the time of transaction. At maturity, the investor can benefit from buying the Underlying Paper Gold/ Silver at the Paper Gold/ Silver's Strike Price, and selling the Underlying Paper Gold/ Silver at a market price higher than the Paper Gold/ Silver's Strike Price. In each case, all settlement of the Underlying Paper Gold/Silver will take place by way of a credit/debit from the applicable account of the investor. No physical settlement of gold/silver will take place.

If the investor sells a Call Option (a Short Call), he / she will receive a premium at the time of transaction. At maturity, he / she will be required to sell the Underlying Paper Gold/ Silver to the Option Buyer at the Paper Gold/ Silver's Strike Price. If the market price at expiration date is lower than the Paper Gold/ Silver's Strike Price, the Option Buyer may choose not to exercise his / her right, and let the option lapse. Thus, the investor of a Short Call benefits from a price decline of the Underlying Paper Gold/ Silver.

Product Features

By purchasing a Call Option, the investor has the opportunity to buy the Underlying Paper Gold/ Silver at a price lower than the market price of Gold/Silver and to gain profits by selling it on the market. Moreover, the investor has no obligation to buy the Underlying Paper Gold/ Silver if the market price is unfavourable.

By selling a Call Option, the investor can keep the premium if the option expires worthless.

Investment Rationale

If the investor expects the price of the underlying gold/silver to appreciate, he / she can buy a Call Option. On the other hand, if the investor expects the price of the Underlying Paper Gold/ Silver to remain unchanged or decline, he / she can consider selling a Call Option. An Option Buyer pays an option premium. If the price of the underlying gold/silver does not appreciate as expected, and the option expires worthless, the Option Buyer will lose the entire option premium paid.

An Option Seller receives an option premium. If the price of the underlying gold/silver appreciates significantly, the Option Seller may be required to buy the Underlying Paper Gold/ Silver at the market price to meet his / her obligation of selling the Underlying Paper Gold/ Silver to the Option Buyer at the Paper Gold/ Silver's Strike Price. This may result in a substantial loss to the Option Seller.

As such, investors in Options should carefully assess their investment risk profile against the potential price movement of the underlying gold/silver before buying or selling a Call Option.

Product Example

A. Buy Call Option

The investor has a bullish view on gold and buys a Call Option on 10,000 oz of Gold when the price is USD 1,200 (Initial Price). The investor pays a premium of USD 2.00 per oz for the option.

Product Terms:	
Tenor	1 month
Gold's Strike Price	USD 1,220
Initial Price	USD 1,200
Premium paid	USD 2.00 x 10,000 oz = USD 20,000

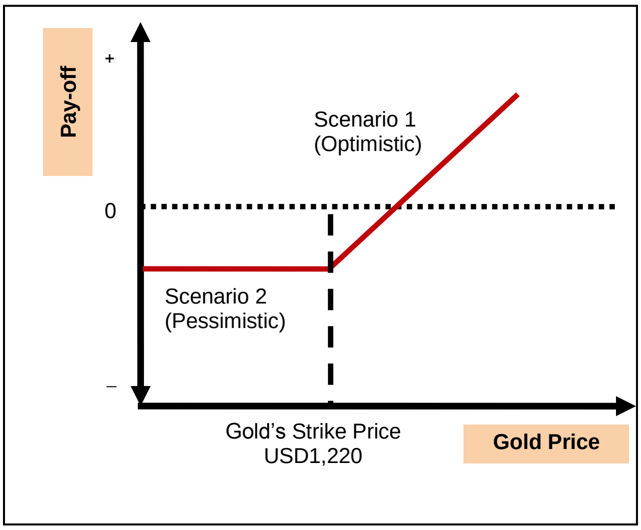


Diagram 1 : Pay-off for Buying a Call Option

This investment results in a profitable trade if the price of gold closes above the gold's Strike Price of USD 1,220 on the expiry date.

Scenario 1 (Optimistic):

If the price of gold is at, say, USD 1,250 on the expiry date, the investor will gain USD 280,000 [(USD1,250 – USD1,220) x 10,000 – USD 20,000].

Scenario 2 (Pessimistic):

If the price of gold is at, say USD 1,180 on the expiry date, the investor will not exercise the option and the loss is limited to USD 20,000, which is the option premium paid.

B. Sell Call Option

The investor has a bearish view on gold and sells a Call Option on 10,000 oz of gold when the price is USD 1,200 (Initial Price). The investor receives a premium of USD3.00 per oz for the option.

Product Terms:	
Tenor	1 month
Gold's Strike Price	USD 1,210
Initial Price	USD 1,200
Premium received	USD 3.00 x 10,000 oz = USD 30,000

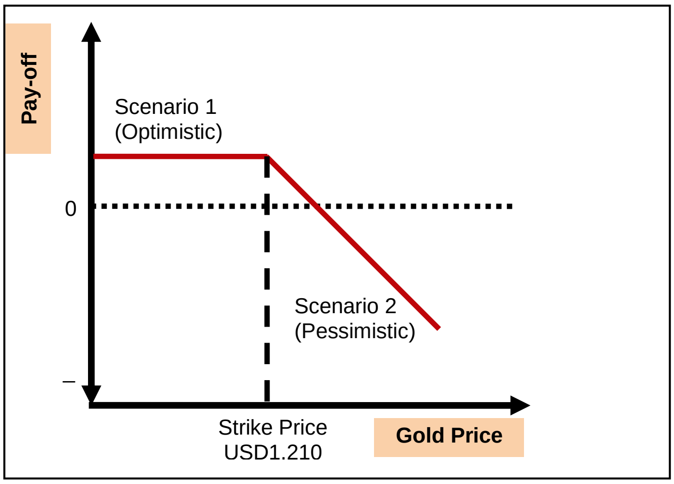


Diagram 2 : Pay-off for Selling a Call Option

This investment results in a profitable trade if the price of gold closes below the Gold's Strike Price of USD 1,210 on the expiry date.

Scenario 1 (Optimistic):

If the price of gold is at, say, USD 1,180 on the expiry date, the option will expire worthless, and the investor will gain the maximum profit of the premium received from selling the option, ie, USD 30,000.

Scenario 2 (Pessimistic):

If the price of gold is at, say, USD 1,300 on the expiry date, the investor will lose USD870,000 [(USD1,300 – USD1,210) x 10,000 oz – USD30,000]. Losses will increase as the Gold price increases.

Sell Covered Call Option

Investor may Sell a Covered Call Option against his / her holdings of Paper Gold / Silver in the account. Upon selling the Covered Call Option, the Option's quantity of Paper Gold / Silver will be earmarked, and the investor will not be able to sell the Paper Gold / Silver until the Call Option expires or the investor unwinds the Call Option.

If the Call Option is exercised, the earmarked Paper Gold / Silver will be used to satisfy the delivery obligation of the Call Option.

Sell Call Option on Margin

Investor may Sell a Call Option on margin by providing the required margin requirement (indicatively, 12% for Paper Gold and 25% for Paper Silver). During the life of the Option, the investor will be required to provide additional collateral for the MTM loss.

If the Call Option is exercised, the investor must ensure he / she has sufficient quantity of the Underlying Paper Gold / Silver to satisfy the delivery obligation. If the investor does not own sufficient quantity of the Underlying Paper Gold / Silver, the Bank may buy the required quantity of Paper Gold / Silver on behalf of the investor at the prevailing market price. If the price of gold / silver has risen substantially, the loss to the investor may be substantial, including more than the notional amount of the option.

OTC Put Option

Product Description

A Put Option is a vanilla option that gives the buyer of the option (a Long Put) the right but not the obligation to sell the Underlying Paper Gold/ Silver at a pre-determined price, called the Paper Gold/ Silver's Strike Price, within a certain period of time. The investor is required to pay a premium at the time of transaction. At maturity, the investor can benefit from selling the Underlying Paper Gold/ Silver at the Paper Gold/ Silver's Strike Price, and buying the Underlying Paper Gold/ Silver at a market price lower than the underlying gold/silver Strike Price. In each cases, all settlement of the Underlying Paper Gold/Silver will take place by way of a credit/debit from the applicable account of the investor. No physical settlement of gold/silver will take place.

If the investor sells a Put Option (a Short Put), he / she will receive a premium at the time of transaction. At maturity, he / she will be required to buy the Underlying Paper Gold/ Silver from the option buyer at the Paper Gold/ Silver's Strike Price. If the market price at expiration date is higher than the Paper Gold/ Silver's Strike Price, the option buyer may choose not to exercise his / her right, and let the option lapse. Thus, the investor of a Short Put benefits from a price increases of the Underlying Paper Gold/ Silver.

Product Features

By purchasing a Put Option, the investor has the opportunity to sell an Underlying Paper Gold/ Silver at a price higher than the market price of the underlying gold/silver and to gain profits by buying it on the market. Moreover, the investor has no obligation to sell the Underlying Paper Gold/ Silver if the market price is unfavourable.

By selling a Put Option, the investor can keep the premium if the option expires worthless.

Investment Rationale

If the investor expects the price of the Underlying gold/silver to fall, he / she can buy a Put Option. On the other hand, if the investor expects the price of the Underlying gold/silver to remain unchanged or appreciate, he / she can consider selling a Put Option.

An option buyer pays an option premium. If the price of the Underlying gold/silver does not fall as expected, and the option expires worthless, the option buyer will lose the entire option premium paid.

An option seller receives an option premium. If the price of the Underlying gold/silver falls significantly, the option seller may be required to buy the Underlying Paper Gold/ Silver from the option buyer at the Paper Gold/ Silver's Strike Price, and to sell the Underlying Paper Gold/ Silver at the market price. This may result in a substantial loss to the option seller.

As such, investors in Options should carefully assess their investment risk profile against the potential price movement of the Underlying Paper Gold/ Silver before buying or selling a Put Option.

Product Example

A. Buy Put Option

The investor has a bearish view on gold and buys a Put Option on 10,000 oz of gold when the price is USD 1,200 (Initial Price). The investor pays a premium of USD3.00 per oz for the option.

Product Terms:	
Tenor	1 month
Gold's Strike Price	USD 1,190
Initial Price	USD 1,200
Premium paid	USD 3.00 x 10,000 oz = USD 30,000

This investment results in a profitable trade if the gold price closes below the gold's Strike Price of USD 1,190 on the expiry date.

Scenario 1 (Optimistic):

If the price of gold is at, say, USD 1,150 on the expiry date, the investor will gain USD 370,000 [(USD1,190 – USD1,150) x 10,000 – USD 30,000].

Scenario 2 (Pessimistic):

If the price of gold closes at USD1,250 on the expiry date, the investor will not exercise the option so that the loss is limited to USD30,000, which is the option premium.

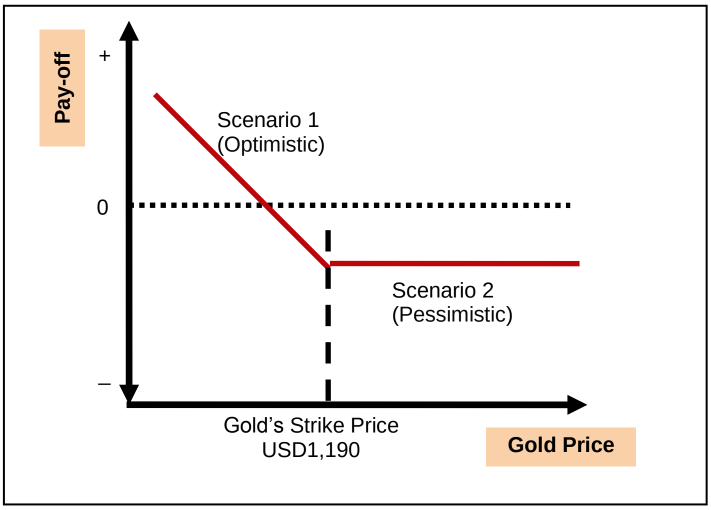


Diagram 3 : Pay-off for Buying a Put Option

B. Sell Put Option

The investor has a bullish view on gold and sells a Put Option on 10,000 oz of Gold when the price is USD 1,200 (Initial Price). The investor receives a premium of USD 2.00 per oz for the option.

Product Terms:	
Tenor	1 month
Gold Strike Price	USD 1,180
Initial Price	USD 1,200
Premium received	USD 2.00 x 10,000 oz = USD 20,000

This investment results in a profitable trade if the price of gold closes above the Gold's Strike Price of USD 1,180 on the expiry date.

Scenario 1 (Optimistic):

If the price of gold is at, say, USD 1,250 on the expiry date, the option will expire worthless, and the investor will gain the maximum profit of the premium received from selling the option, ie, USD 20,000.

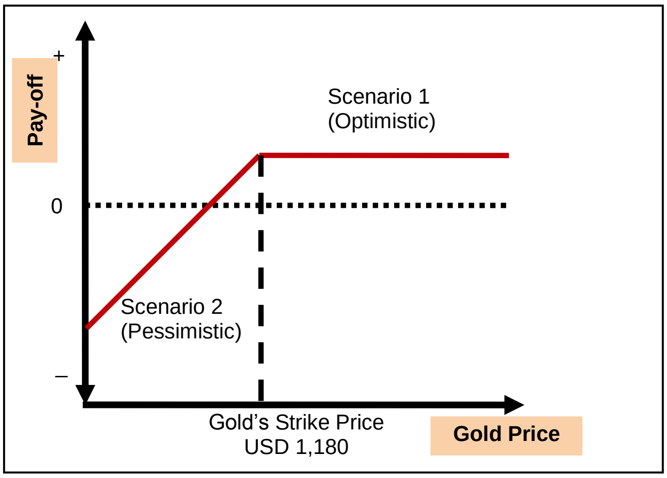


Diagram 4 : Pay-off for Selling a Put Option

Scenario 2 (Pessimistic):

If the price of gold is at, say, USD 1,000 on the expiry date, the investor will lose USD1,780,000 [(USD1,180 – USD1,000) x 10,000 oz – USD20,000]. Losses will increase as the Gold price decreases.

Sell Covered Put Option

When investor Sell a Covered Put Option, the Bank will earmark cash in the investor's account. The investor will not be able to utilise the earmarked cash for any remittance or transaction until the Put Option expires or the investor unwinds the Put Option.

If the Put Option is exercised, the earmarked cash will be used to satisfy the delivery obligation of the Put Option.

Sell Put Option on Margin

Investor may Sell Put Option on margin by providing the required margin requirement (indicatively, 12% for Paper Gold and 25% for Paper Silver).

If the Put Option is exercised, the investor will need to provide funding for the delivery of the Paper Gold / Silver. If the price of gold / silver has fallen substantially, the loss to the investor may be substantial, up to the notional amount of the option.

OTC Call Option with American Knock-out / OTC Put Option with American Knock-out

A Knock-out refers to a feature whereby the option will terminate before maturity if the Underlying Paper Gold/ Silver reaches a pre-determined level called the Knock-out Price (KO Price), during the life of the Product. If the KO Price is never triggered during the investment period, the Product will continue to run till the Expiry Date, and will be regarded as a vanilla option.

The Knock-out Price of an OTC Call Option with American Knock-out is usually below the Initial Price, while the Knock-out Price of an OTC Put Option with American Knock-out is usually above the Initial Price.

OTC Call Option with American Knock-in / OTC Put Option with American Knock-in

OTC Call Option with European Knock-in / OTC Put Option with European Knock-in

A Knock-in refers to a feature whereby the option comes into existence only if the price of Underlying Paper Gold/ Silver triggers the Knock-in Price. Otherwise, the option will expire worthless.

American Knock-in means the Knock-in may be triggered anytime during the life of the option. European Knock-in means the Knock-in is only observed on the option's expiry date.

The Knock-in Price of an OTC Call Option with Knock-in is usually above the Paper Gold/ Silver's Strike Price, while the Knock-in Price of an OTC Put Option with Knock-in is usually below the Paper Gold/ Silver's Strike Price.

OTC Call Option with American Knock-out and American Knock-in

An OTC Call Option with American Knock-out and American Knock-in has two barriers, ie, American Knock-out and American Knock-in. Usually, the Knock-out Price is below the Initial Price, while the Knock-in Price is above the Strike Price.

<u>Conditions for Option Exercise</u>:

- If the Knock-out Price is triggered anytime during the life of the option, the option will early terminate immediately.
- If the Knock-out Price is not triggered, then if the Knock-in Price is not triggered during the life of the option, the option will expire worthless, regardless of the market price relative to the Paper Gold/ Silver's Strike Price.
- If the Knock-out Price is not triggered, and the Knock-in Price is triggered, then the option becomes effective, and the pay-off of a vanilla OTC Call Option applies:
  - ✓ If the Spot Price is at or above the Strike Price, the option will be exercised, ie, the Option Buyer will buy the Underlying Paper Gold/ Silver at the Strike Price, and the Option Seller will sell the Underlying Paper Gold/ Silver at the Strike Price. All settlement of the Underlying Paper Gold/Silver will take place by way of a credit/debit from the applicable account of the investor. No physical settlement of gold/silver will take place.
  - ✓ If the Spot Price is below the Paper Gold/ Silver's Strike Price, the option will expire worthless.

OTC Put Option with American Knock-out and American Knock-in

An OTC Put Option with American Knock-out and American Knock-in has two barriers, ie, American Knock-out and American Knock-in. Usually, the Knock-out Price is above the Initial Price, while the Knock-in Price is below the Strike Price.

<u>Conditions for Option Exercise</u>:

- If the Knock-out Price is triggered anytime during the life of the option, the option will early terminate immediately.
- If the Knock-out Price is not triggered, then if the Knock-in Price is not triggered during the life of the option, the option will expire worthless, regardless of the market price relative to the Paper Gold/ Silver's Strike Price.
- If the Knock-out Price is not triggered, and the Knock-in Price is triggered, then the option becomes effective, and the pay-off of a vanilla OTC Put Option applies:
  - ✓ If the Spot Price is at or below the Strike Price, the option will be exercised, ie, the Option Buyer will sell the Underlying Paper Gold/ Silver at the Paper Gold/ Silver's Strike Price, and the Option Seller will buy the Underlying Paper Gold/ Silver at the Strike Price. In each cases, all settlement of the Underlying Paper Gold/Silver will take place by way of a credit/debit from the applicable account of the investor. No physical settlement of gold/silver will take place.
  - ✓ If the Spot Price is above the Strike Price, the option will expire worthless.

OTC Call Option with American Knock-out and European Knock-in

An OTC Call Option with American Knock-out and European Knock-in has two barriers, ie, American Knock-out and European Knock-in. Usually, the Knock-out Price is below the Initial Price, while the Knock-in Price is above the Strike Price.

Conditions for Option Exercise:

- If the Knock-out Price triggered anytime during the life of the option, the option will early terminate immediately.
- If the Knock-out Price is not triggered, then on the option expiry date:
  - ✓ If the Spot Price is at or above the Knock-in Price, the option will be exercised, ie, the Option Buyer will buy the Underlying Paper Gold/ Silver at the Strike Price, and the Option Seller will sell the Underlying Paper Gold/ Silver at the Strike Price.
  - ✓ If the Spot Price is below the Knock-in Price, the option will expire worthless.

OTC Put Option with American Knock-out and European Knock-in

An OTC Put Option with American Knock-out and European Knock-in has two barriers, ie, American Knock-out and European Knock-in. Usually, the Knock-out Price is above the Initial Price, while the Knock-in Price is below the Strike Price.

Conditions for Option Exercise:

- If the Knock-out Price triggered anytime during the life of the option, the option will early terminate immediately.
- If the Knock-out Price is not triggered, then on the option expiry date:
  - ✓ If the Spot Price is at or below the Knock-in Price, the option will be exercised, ie, the Option Buyer will sell the Underlying Paper Gold/ Silver at the Paper Gold/ Silver's Strike Price, and the Option Seller will buy the Underlying Paper Gold/ Silver at the Paper Gold/ Silver's Strike Price.
  - ✓ If the Spot Price is above the Knock-in Price, the option will expire worthless.

Worst Case Scenario

Buy Call Option or Put Option

In the worst case, investors who buy Options are subject to the full loss of the option premium paid if the price of Paper Gold / Silver does not perform as expected, and the investor is unable to exercise the Option.

Sell Call Option

In the worst case, investors who sell Call Options are subject to potential losses if the underlying Paper Gold / Silver rises substantially. The potential losses may be more than the Option's notional amount of the Option if the underlying Paper Gold / Silver rises more than 100%.

Sell Put Option

In the worst case, investors who sell Put Options are subject to potential losses if the underlying Paper Gold / Silver falls substantially. The potential losses may be up to 100% of the Option's notional amount if the underlying Paper Gold / Silver falls to zero.

In addition to the above, the investor also takes on the credit risk of the Bank. The investor has the potential to lose up to 100% of the Option's notional amount if the Bank defaults on its obligations.

If the Option transaction is entered on a margined basis, the potential loss is not limited to the amount placed as margin.

INVESTMENT ALTERNATIVES THAT YOU MAY CONSIDER

Forward Transactions on FX Gold and Silver

	Investment Alternative 1	Investment Alternative 2
Product Name	Vanilla Option (Buy)	Vanilla Option (Sell)
Product Descriptions	Pay premium to hold exercise right at pre-determined strike rate on pre-determined expiry.	Option writer to receive premium but bears exercise obligation at pre-determined rate on pre-determined expiry.
Payoff	Option holder may make a gain if underlying currency pair drives at correct direction at expiry.	Option seller is obligated to receive weak currency at expiry, which will result in negative payoff.
Product Liquidity	Easy to unwind on daily bullion market	Easy to unwind on daily bullion market
Worst Case Scenario	Premium payable will be forfeited if option does not perform	If redemption notional is converted back to principal currency at prevailing spot market, investors may suffer substantial loss

Structured Notes on Paper Gold and Silver

	Investment Alternative 1	Investment Alternative 2
Product Name	Vanilla Option (Buy)	Forward Transactions on FX Gold and Silver
Product Descriptions	Pay premium to hold exercise right at pre-determined strike rate on pre-determined expiry.	An agreement to trade the underlying bullion pair at a future date with the exchange rate fixed on the trade day.
Payoff	Option holder may make a gain if underlying currency pair drives at correct direction at expiry.	No paper Gold / Silver receivable or payable, profit / loss presented by cash flow at contract expiry
Product Liquidity	Easy to unwind on daily bullion market	Easy to unwind on daily bullion market
Worst Case Scenario	Premium payable will be forfeited if option does not perform	In the extreme cases, unwinding the existing contract may result substantial loss on principal invested.

The content of this Product Booklet (including the product nature, description and risks) may not be applicable to all or any of the investment alternatives herein. So please obtain the Product Booklet(s) for the investment alternative(s) that you are interested in from your Relationship Manager and transact over that/those investment alternative(s) ***only after*** you have carefully read and fully understood the Product Booklet(s) for that/those investment alternative(s).