

What are inline warrants?

2019.07

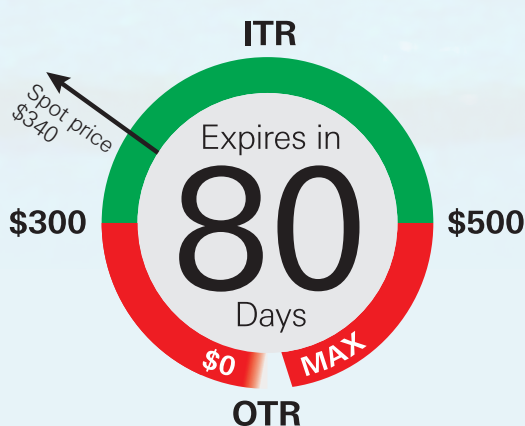
The structured products
are non-collateralized

Inline warrant is a type of structured product with gearing effect that would help you achieve your investment objectives more effectively. Currently, the eligible underlying assets over which they can be issued include the Hang Seng Index and a range of eligible underlying assets prescribed by the Stock Exchange of Hong Kong Limited from time to time.

There is a straightforward calculation for the settlement price of inline warrants, all of which are settled in cash when exercised on expiry. The specific amount will depend on the settlement price of its underlying asset at maturity.

Scenario	Valuation of underlying asset at expiry	Settlement price of inline warrant (per inline warrant)
In-the-range (ITR)	Falls within the upper and lower strike prices*	\$1
Out-of-the-range (OTR)	Falls above or below the strike price	\$0.25

* Including the upper and lower strike prices



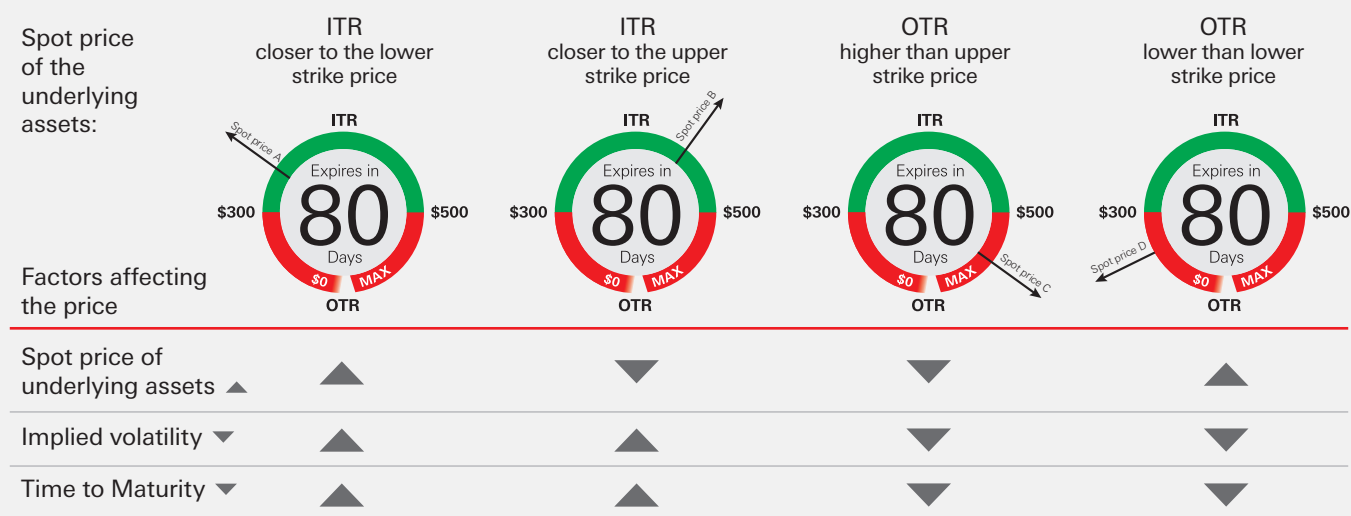
Tencent's spot price is \$40 away from the lower strike price

(This example is given for illustrative and reference purposes only)

As illustrated in the diagram on the left, the lower and upper strike prices of the Tencent inline warrant are \$300 and \$500 respectively, while its spot price is in-the-range at \$340. If Tencent's price remains in-the-range (i.e. within the green range, including the upper and lower strike prices) at expiry in 80 days, investors will be entitled to a cash settlement amount of \$1 per inline warrant. Otherwise, if the price falls out-of-the-range (i.e. within the red range) at expiry, investors will be entitled to a cash settlement amount of \$0.25 per inline warrant.

Currently, short selling is not allowed for all inline warrants. Investors should be aware that all investments involve risks (including the risk of losing the principal investment) and the price of an inline warrant may fall in value as rapidly as it may rise. Before making any investment decision, investors should ensure that they understand the risks of the relevant product and seek professional advice. Inline warrants are not secured by any collateral. If the issuer becomes insolvent or defaults, investors will not have any preferential claim and may lose their entire investment.

What are the major factors affecting the price of an inline warrant?



* Assuming that all other factors are held constant. All indications of "\$" above refer to Hong Kong dollars

Major Risks of Inline Warrants



No similar listed structured products for comparison: Inline warrants are structured products that have been newly introduced to the market, there are no similar products currently listed on the Stock Exchange of Hong Kong Limited for comparison



Maximum potential payoff is fixed and capped: The maximum payoff to be received by investors is already pre-determined upon purchasing of inline warrants. If the valuation of the underlying assets falls at or within the upper and lower strike prices (ITR) at maturity, they will be entitled to a fixed payoff of \$1



Risks of gearing: The gearing inherent in an inline warrant is particularly sensitive to situations where the spot price of the underlying assets comes close to either the lower or upper strike price, which would potentially lead to larger price fluctuations



Maturity: If the settlement price of the underlying asset falls out-of-the-range (OTR) at expiry, investors will only be entitled to a payoff of \$0.25 per inline warrant, which might be far less than the principal invested



Price fluctuations: The price of an inline warrant might deviate from its theoretical price due to external factors (e.g. market supply and demand, and dividend yield)

* All indications of "\$" above refer to Hong Kong dollars

What are the differences among inline warrants, standard warrants, and callable bull/bear contracts (CBBCs)?

Feature	Inline warrants	Standard warrants	CBBCs
Mandatory call	No	No	Yes
Implied volatility	Varies depending on whether the spot prices of the underlying assets falls in-the-range or out-of-the-range	Pricing is affected by the implied volatility, especially in the case of a standard warrant that comes close to its strike price	Pricing is less often affected by the implied volatility
Time value	Varies depending on whether the spot prices of the underlying assets falls in-the-range or out-of-the-range	As a standard warrant approaches its maturity, its time value decreases relatively more rapidly	Subject to relatively less impact from time value
Effective gearing	Changes in gearing are most sensitive to situations where the spot prices of the underlying assets come close to either the lower or upper strike price	Usually, the more out-of-the-money a standard warrant is, the higher its gearing, but less sensitive to the price movement of its underlying assets	Usually, the closer the call price to the spot price of the underlying assets, the higher the gearing, but also the risk of mandatory call is relatively higher

For more details, please visit HSBC's one-stop smart online platform on which you can obtain additional information relating to inline warrants, view relevant market data, and search among all the inline warrant products that are listed on the Stock Exchange of Hong Kong Limited which is free of charge.

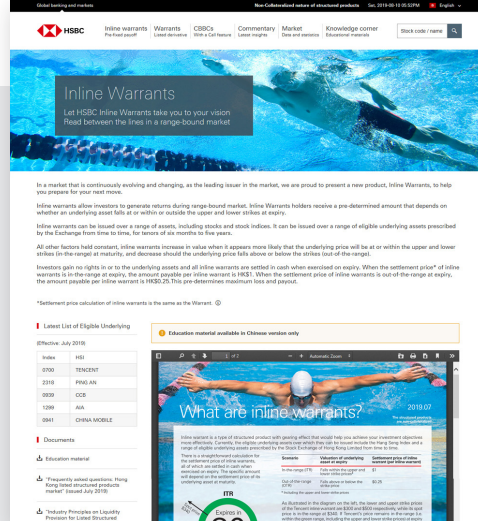
www.warrants.hsbc.com.hk/inline

As one of the first issuers engaged in inline warrants, HSBC has been deeply-rooted in Hong Kong for over 150 years and established its operations around the globe, and is one of the strongest, most robust international banks in the world. With our global presence and intimate local knowledge, we have the solutions and expertise to be able to respond expertly to your personal aspirations and answer your investment needs.

Risk Warning and Disclaimer

The structured products are not collateralized. If the issuer is insolvent or defaults, investors may not recover part or all of the amount due.

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How to identify the most suitable product using the search engine for inline warrants?

- Select the underlying assets**
Make this selection based on your personal predictions about the stock market
- Set the target level**
Select the upper and lower strike prices of the inline warrant based on the expectation of the movements of the underlying assets
The closer the spot price of the underlying assets to the mid-point of the upper and lower strike prices, the higher its theoretical price
- Select the maturity**
Be aware of the impact of time value on the price of inline warrants
- Decide on the principal to be invested**
The maximum and minimum payoffs of inline warrants are \$1 and \$0.25 per inline warrant, respectively
The lower the amount invested in each inline warrant, the higher the gearing inherent in the product, and the higher the risk

* All indications of "\$" above refer to Hong Kong dollars