

# Hang Seng H-Share Index ETF

(stock code: 2828)

## Hong Kong Offering Document

### IMPORTANT RISK WARNINGS / FUND INFORMATION FOR HONG KONG INVESTORS

- ❖ Hang Seng H-Share Index ETF (the “H-Share ETF”) is an index-tracking fund which aims to match, before expenses, as closely as practicable the performance of the Hang Seng China Enterprises Index (the “H-Share Index”). The H-Share ETF invests primarily in the constituent stocks of the H-Share Index.
- ❖ The H-Share ETF is different from a typical unit trust as it is listed on The Stock Exchange of Hong Kong Limited, and like other listed stocks, carry similar risks such as liquidity risk and risk of trading suspension. The market price per Unit could be significantly higher or lower than its Net Asset Value per Unit due to market demand and supply, liquidity and scale of trading spread in the secondary market and will fluctuate during the trading day.
- ❖ The H-Share ETF is subject to tracking error risks, risks associated with passive investments and risks of concentration of investments in a single market/several constituent stocks of the H-Share Index.
- ❖ Investment involves risks and investors may lose substantial part of their investment in the H-Share ETF.

**Important – If you are in any doubt about the contents of this document, you should consult your stockbroker, bank manager, solicitor or accountant or other independent professional financial adviser.**

Units of the Hang Seng H-Share Index ETF are listed and can be dealt with on The Stock Exchange of Hong Kong Limited. Units of the Hang Seng H-Share Index ETF may also be listed on one or more other stock exchanges in the future.

The Stock Exchange of Hong Kong Limited, the Securities and Futures Commission in Hong Kong and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim 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 Hang Seng H-Share Index ETF has been authorised as a collective investment scheme by the Securities and Futures Commission in Hong Kong. Such authorisation does not imply official recommendation.

**Hang Seng Investment Management Limited**

**13 August 2009**

## Selling and Holding Restrictions

Permission for the offering of any units (**Units**) of the Hang Seng H-Share Index ETF (**H-Share ETF**) and the distribution of this offering document in Hong Kong has been obtained. Units may also be listed on one or more other stock exchanges in the future. For the authorisation/listing status of the H-Share ETF in the relevant jurisdiction(s), investors may contact the authorised agent(s) in the relevant jurisdiction(s) or the Manager.

The distribution of this offering document and the offering of the Units may be restricted in certain jurisdictions. This offering document does not constitute and should not be regarded as an offer or solicitation by anyone in any jurisdiction where such offer or solicitation is not authorised or may be unlawful, where the person making such offer or solicitation is not authorised to make it or where the person receiving such offer or solicitation may not lawfully receive it.

In particular:

- (a) Units have not been registered under the United States Securities Act of 1933, as amended and are not being offered in the United States of America (**US**), nor may they be directly or indirectly offered or sold in the US or in its territories or possessions or areas subject to its jurisdiction or to or for the benefit of any US citizen, resident, partnership or company; and
- (b) Units may not, except pursuant to a relevant exemption, be acquired or owned by, or acquired with the assets of an ERISA Plan. An “ERISA Plan” is any retirement plan subject to Title 1 of the United States Employee Retirement Income Securities Act of 1974, as amended; or any individual retirement account or plan subject to section 4975 of the United States Internal Revenue Code of 1986, as amended.

The H-Share ETF has not been and will not be registered under the United States Investment Company Act of 1940, as amended and the manager of the H-Share ETF, Hang Seng Investment Management Limited (**Manager**) is not registered under the United States Investment Advisers Act of 1940, as amended.

Units will not be offered for sale in Canada, to residents of Canada, companies incorporated in Canada or for the benefit of any resident of Canada.

The Manager has the power to impose such restrictions as the Manager may think necessary for the purpose of ensuring that no Units are acquired or held by:

- (a) any person in breach of the law or requirements of any country or governmental authority or The Stock Exchange of Hong Kong Limited (**SEHK**) in circumstances which, in the opinion of the Manager, might result in the H-Share ETF suffering an adverse effect; or
- (b) any person or persons in circumstances (whether directly or indirectly affecting such person or persons and whether taken alone or in conjunction with any other persons, connected or not, or any other circumstances appearing to the Manager to be relevant) which, in the opinion of the Manager, might result in the H-Share ETF incurring any liability to taxation or suffering any other pecuniary disadvantage.

If the Manager becomes aware that any Units are owned directly or beneficially by any person in contravention of any restrictions applied by the Manager, the Manager may require such person to transfer or redeem such Units.

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## Summary

Set out below is a summary of the H-Share ETF. The summary information is derived from, and should be read in conjunction with, the full text of this offering document. **Your attention is drawn to the section headed “What are the Risks of Investing in the H-Share ETF?”.**

### Key Information in respect of the **H-Share ETF**

<b>Instrument Type</b>	Exchange Traded Fund
<b>Tracked Index</b>	Hang Seng China Enterprises Index ( <b>H-Share Index</b> )
<b>Listing Date</b>	10 December 2003
<b>Exchange Listing in Hong Kong</b>	The Stock Exchange of Hong Kong Limited ( <b>SEHK</b> ) – Main Board
<b>Stock Code</b>	2828
<b>Trading Board Lot Size</b>	200 Units
<b>Trading Currency</b>	Hong Kong dollars
<b>Dividend Payout</b>	Semi-annually (if any)
<b>Market price per Unit in Proportion to H-Share Index</b>	Approximately 1/100 <sup>1</sup>
<b>In-kind Creation/ Redemption (via Participating Dealers only)</b>	Minimum 100,000 Units (or multiples thereof)
<b>Manager</b>	Hang Seng Investment Management Limited
<b>Trustee</b>	HSBC Provident Fund Trustee (Hong Kong) Limited
<b>Registrar</b>	HSBC Provident Fund Trustee (Hong Kong) Limited
<b>Website</b>	<a href="http://www.hangseng.com/etf">http://www.hangseng.com/etf</a>

### What is the H-Share ETF?

The H-Share ETF is part of the Hang Seng Investment Index Funds Series (**Index Funds Series**), a unit trust established as an umbrella fund under the laws of Hong Kong on 18 November 2003 to facilitate the establishment of various index-tracking funds including exchange traded funds. The H-Share ETF is the first sub-fund of the Index Funds Series and was established on 19 November 2003.

The H-Share ETF is an index-tracking fund that seeks to provide investment returns for investors that match the performance of the Hang Seng China Enterprises Index (**H-Share Index**) as closely as practicable. Hang Seng Investment Management Limited (**Manager**), the manager of the H-Share ETF, intends to adopt a replication strategy to pursue this objective.

The H-Share Index tracks the performance of mainland China (**the Mainland**) incorporated enterprises listed in Hong Kong in the form of H Shares.

### Trading of Units

Units in the H-Share ETF are denominated in Hong Kong dollars. Investors may:

- (1) purchase and sell Units in the secondary market on the SEHK in board lot of 200 Units (or multiples thereof); and/or
- (2) apply for in-kind creation and redemption through authorised participants (**Participating Dealers**) in a minimum number of 100,000 Units (or multiples thereof).

For Hang Seng China H-Share Index Fund, special creations and redemptions for the Units (both in cash and in-kind) through the Manager are available.

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<sup>1</sup> This is only a rough approximation and is for reference only (brokerage and other transaction fee not included). The actual proportion may vary due to market demand and supply for the Units, as well as other factors. The Manager shall not be liable for such rough approximation.

### **Is an investment in the H-Share ETF suitable for me?**

The answer really depends on an assessment of your own circumstances. You should satisfy yourself that the H-Share ETF is suitable for you having regard to your own circumstances, including your financial situation, investment experience and investment objectives, before making any decision to invest in the H-Share ETF.

By way of background, the H-Share ETF has been established for investors seeking a relatively inexpensive and passive means of investing in a portfolio of H-Shares. In tracking the H-Share Index, the H-Share ETF will be investing in Mainland companies which have substantial business exposure to growth opportunities in the Mainland.

You should carefully consider the risks involved in investing in the H-Share ETF together with all other information included in this offering document before making an investment decision. Please specifically see the section headed "What are the Risks of Investing in the H-Share ETF?".

In addition, you should avoid excessive investment in any single type of investment (in terms of its proportion of your overall portfolio) including any proposed investment in Units so as to avoid having your investment portfolio being over-exposed to any particular investment risk.

### **What is the Investment Objective of the H-Share ETF?**

The H-Share ETF is an index-tracking fund tracking the performance of the H-Share Index, as more fully described below.

The investment objective of an index-tracking fund is to match, before expenses, as closely as practicable, the performance of an underlying index against which the index-tracking fund is benchmarked.

A stock index tracks the performance of a group of stocks (**Index Shares**) which an index provider selects as representative of a market, specific industry sector or market segment.

The index provider determines the relative weightings of the group of Index Shares in an index and publishes the information regarding the market value of the index.

The H-Share ETF seeks to provide investment returns that match as closely as practicable the performance of the H-Share Index. For more information about the H-Share Index and its constituent stocks (**H-Share Index Constituent Stocks**), please see Appendix 2 "Information About the H-Share Index".

### **What Investment Strategy is used by the H-Share ETF?**

A replication strategy, as more fully described below.

Index-tracking funds are not managed according to traditional methods of active investment management, which involve the buying and selling of securities based on the fund manager's economic, financial and market analysis and investment judgement.

Unlike an actively managed investment fund, an index-tracking fund does not attempt to outperform any particular stock market or sector thereof nor any underlying benchmark or stock index.

Instead, using a passive approach or indexing investment strategy, the fund manager attempts to match, as closely as practicable, the performance of the underlying index relevant to the index-tracking fund.

#### *What are indexing investment strategies?*

Indexing investment strategies are used by fund managers to fulfil an index-tracking fund's investment objective. Replication and representative sampling are the two most common strategies.

### *Replication Strategy*

Using a replication strategy, an index-tracking fund invests in substantially all the Index Shares in substantially the same weightings (i.e. proportions) as these stocks have in the underlying index. When a stock ceases to be an Index Share rebalancing occurs which involves selling the outgoing Index Share and using the proceeds to acquire the incoming Index Share. The downside of using a replication strategy is that transaction costs may be higher than when a representative sampling strategy is being used.

### *Representative Sampling Strategy*

Using a representative sampling strategy, an index-tracking fund invests in a representative sample of Index Shares selected by the fund manager using quantitative analytical models in a technique known as portfolio sampling. Under this technique, each stock is considered for inclusion in the fund based on its contribution to certain capitalisation, industry and fundamental investment characteristics. The fund manager seeks to construct the portfolio of the fund so that, in the aggregate, its capitalisation, industry and fundamental investment characteristics perform like those of its underlying index. The risk of using a representative sampling strategy is that it may not track the underlying index as closely as a replication strategy would allow, but a representative sampling strategy does provide for a close correlation to the underlying index in a cost-efficient manner.

### *What Strategy Is Used for the H-Share ETF?*

The Manager primarily adopts a replication strategy.

In order to maximise portfolio management efficiency, minimise transaction costs and tracking error, exposure to the H-Share Index may also be obtained through other index-tracking strategies or financial instruments from which the return to the H-Share ETF substantially reflects the performance of the H-Share Index. Such strategies and instruments are chosen based on their correlation to the H-Share Index and cost efficiency in order to reflect the characteristics of the H-Share Index. Hence, the Manager may decide to utilise a representative sampling strategy or another investment strategy from time to time to achieve the H-Share ETF's investment objective.

If a representative sampling strategy is implemented by the Manager, the Manager will apply such strategy in accordance with H-Share ETF's investment restrictions (please see the section headed "Are there any Investment or other Restrictions applicable to the H-Share ETF?") thereby enabling the Manager to overweight the H-Share Index Constituent Stocks relative to their respective weightings in the H-Share Index in accordance with the below limits.

Stock's weight in the H-Share Index	Maximum extra weighting to be allocated
Below 10%	4% <sup>1</sup>
10% - 30%	4%
30% - 50%	3%
Above 50%	2%

<sup>1</sup> Where the weighting of a constituent stock in the H-Share Index is below 10% and if the total allocation to this constituent stock is still below 10% after allocating the maximum extra weighting of 4%, the total allocation to it may be adjusted up to a maximum of 10%.

Disclosures will be made in the H-Share ETF's reports and accounts whether the above limits have been complied in full.

### **Are there any Investment or other Restrictions Applicable to the H-Share ETF?**

Yes. The H-Share ETF is a collective investment scheme authorised by the Securities and Futures Commission in Hong Kong (SFC) for sale to investors in Hong Kong pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (an **Authorised Fund**), such authorisation does not imply official recommendation. The SFC has the right to withdraw such authorisation of the H-Share ETF if it no longer considers the H-Share Index is acceptable. In addition, as an Authorised Fund, the H-Share ETF is not permitted to make certain investments or to

engage in certain borrowing or lending activities. These investment, borrowing and lending restrictions are summarised below.

*Investment restrictions*

- (1) Not more than 10% of the net asset value (**NAV**) of the H-Share ETF may consist of securities (other than government securities) issued by a single issuer, except that this 10% limitation may be exceeded provided that:
  - (i) it is limited to an H-Share Index Constituent Stock that each accounts for more than 10% of the weighting of the H-Share Index Constituent Stock; and the H-Share ETF's holding of any such H-Share Index Constituent Stock does not exceed its weightings in the H-Share Index (except where such weighting is exceeded as a result of changes in the composition of the H-Share Index and the excess is only transitional and temporary in nature); or
  - (ii) the H-Share ETF has adopted a representative sampling strategy; and
    - (A) the strategy is clearly disclosed in this offering document, as amended from time to time;
    - (B) the excess of the weighting of the H-Share Index Constituent Stock held by the H-Share ETF over its weighting in the H-Share Index is caused by the implementation of the representative sampling strategy;
    - (C) any excess in weighting of the H-Share Index Constituent Stock over its weighting in the H-Share Index is subject to a maximum limit reasonably determined by the Manager after consultation with the SFC and having had regard to the characteristics of the H-Share Index Constituent Stock, its weighting and the investment objective of the H-Share Index and any other suitable factors (the maximum limits applicable to the H-Share ETF are disclosed above under the sub-section headed "What Strategy is Used for the H-Share ETF?");
    - (D) the limits laid down by the H-Share ETF pursuant to paragraph (C) above are disclosed in this offering document as amended from time to time; and
    - (E) disclosure is made in the H-Share ETF's semi-annual and annual financial reports whether the limits in paragraph (C) have been complied with in full.
- (2) The H-Share ETF may not hold more than 10% of any ordinary shares issued by any single issuer.
- (3) Not more than 15% of the NAV of the H-Share ETF may consist of securities of any company not listed or quoted on a recognised securities market or recognised commodities market (as the case may be) on which such securities are regularly traded.
- (4) Not more than 30% of the NAV of the H-Share ETF may consist of government securities of a single issue, except that this 30% limitation may be exceeded provided that (1)(ii) is complied with or if the excess is limited to any government securities that are constituent securities of the H-Share Index that each accounts for more than 30% of the weighting of the H-Share Index and the H-Share ETF's holding of any such constituent securities does not exceed their respective weightings in the H-Share Index (except where weightings are exceeded as a result of changes in the composition of the H-Share Index and the excess is only transitional and temporary in nature).
- (5) Not more than 15% (in terms of the total amount of premium paid) of the NAV of the H-Share ETF may consist of warrants and options, other than warrants and options held for hedging purposes.
- (6) The net aggregate value of the contract prices, whether payable to or by the H-Share ETF, under all outstanding futures contracts entered into for the account of the H-Share ETF (other than futures contracts entered into for hedging purposes), together with the aggregate value of physical commodities (including gold,

silver, platinum or other bullion) and commodity based investments (other than securities issued by companies engaged in producing, processing or trading in commodities) held by the H-Share ETF may, not exceed 20% of the NAV of the H-Share ETF.

- (7) Not more than 10% of the NAV of the H-Share ETF may consist of shares or units in collective investment schemes.
- (8) No increase in the overall total management fees, trustee fees or any other costs and charges payable to the Manager or any person connected to it by investors in the H-Share ETF or by the H-Share ETF may result if H-Share ETF invests in another collective investment scheme managed by the Manager or a person connected to it.
- (9) The H-Share ETF may not invest in any share where a call is to be made for any sum unpaid on that share unless that call could be met in full out of cash or near cash by the assets of the H-Share ETF, the amount of which has not already been taken into account for the purposes of paragraph (10)(e) below.
- (10) The Manager shall not, on behalf of the H-Share ETF:
  - (a) invest in a security of any class in any company or body if any director or officer of the Manager individually owns more than 0.5% of the total nominal amount of all the issued securities of that class, or collectively the directors and officers of the Manager own more than 5% of those securities;
  - (b) invest in any type of real estate (including buildings) or interests in real estate (including options or rights but excluding shares in real estate companies);
  - (c) make short sales if as a result the H-Share ETF would be required to deliver securities having a value exceeding 10% of the NAV of the H-Share ETF and also the securities sold short must be actively traded on a stock exchange, over-the-counter market or other organized securities market which is open to the international public where short selling is permitted;
  - (d) write uncovered options;
  - (e) write a call option on securities if the aggregate exercise prices of all such call option and of all other options written for the account of the H-Share ETF would exceed 25% of the NAV of the H-Share ETF;
  - (f) make a loan out of the assets of the H-Share ETF without the prior written consent of the Trustee except to the extent that the acquisition of a security or the making of a deposit might constitute a loan;
  - (g) assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person in respect of borrowed money without the prior written consent of the Trustee ; or
  - (h) enter into any obligation on behalf of the H-Share ETF or acquire any asset for the account of the H-Share ETF which involves the assumption of any liability by the H-Share ETF which is unlimited.

#### *Borrowing restrictions*

The H-Share ETF is permitted to borrow an amount up to a maximum of 25% of its NAV except that back-to-back loans will not be taken into account when determining whether or not such limit has been breached. The Trustee may at the request of the Manager borrow for the account of the H-Share ETF any currency for the following purposes:

- (1) facilitating the subscriptions or redemption of Units or defraying operating expenses;
- (2) enabling the Manager to acquire investments for the account of the H-Share ETF;
- (3) enabling the Manager to realise Units or to pay expenses of the H-Share ETF; or

- (4) for any other proper purpose, as the Manager and the Trustee may agree to.

The assets of the H-Share ETF may be charged or pledged to secure such borrowing for the account of the H-Share ETF.

If any of the investment or borrowing restrictions applicable to the H-Share ETF are breached, the Manager will take all steps necessary within a reasonable period of time to remedy the situation.

#### *Securities lending*

The Manager may, as provided in the Trust Deed, request the Trustee to enter into securities lending transactions for the account of the H-Share ETF pursuant to which some or all of the assets of the H-Share ETF may be lent to one or more third party borrowers. Securities lending transactions will only be entered into:

- (1) if both the Trustee and the Manager are satisfied that the borrower will provide sufficient assets as collateral for the borrowed securities of a value equivalent to or in excess of the borrowed securities and such collateral to be quality, liquid collateral; and
- (2) through the agency of a recognised clearing system or a financial institution acceptable to the Trustee and the Manager which engages in this type of transaction.

Both the Trustee and the Manager shall take reasonable measures to ensure that such collateral is maintained at adequate levels, after prudent haircut and daily marked-to-market, to ensure that the exposure of the H-Share ETF is adequately covered including any possible event of counterparty default.

Further, details of the arrangements are as follows:-

- (a) the income received from such securities lending after deduction of any fees or commission payable will be credited to the account of the H-Share ETF and such income will be disclosed in its annual financial reports;
- (b) each borrower is expected to have a minimum credit rating of A2 assigned by Moody's or equivalent, or deemed to have an implied rating of A2; alternatively, an unrated borrower will be acceptable where the H-Share ETF is indemnified against losses caused by the borrower, by an entity which has a minimum credit rating of A2;
- (c) the Trustee, upon the request of the Manager, will take collateral and the collateral agent (to be appointed by the Trustee at the direction of the Manager or the Manager as they may between them agree) will review its value on a daily basis to ensure that it is at least of a value equivalent to the borrowed securities; such collateral may include cash, securities issued or guaranteed by any Organisation for Economic Co-operation and Development (OECD) or European Union government, government agencies or any other public or supranational bodies or organisations or any other issuer which is, in the opinion of the Trustee and the Manager, of similar standing and certificates of deposit with maturity of no more than one year;
- (d) up to 100% of the assets of the H-Share ETF may be lent to one or more borrowers; and
- (e) where any securities lending transaction has been arranged through the Trustee or a connected person of the Trustee or the Manager, such transaction shall be conducted at arm's length and executed on the best available terms, and the relevant entity shall be entitled to retain for its own use and benefit any fee or commission it receives on a commercial basis in connection with such arrangement (the securities lending fee will be disclosed in the connected party transaction section of the annual financial report of the H-Share ETF).

#### **What are the Risks of Investing in the H-Share ETF?**

Investors should note that the risk factors mentioned below do not purport to be an exhaustive list of all the risks inherent in an investment in the H-Share ETF. Investors should not solely rely upon such information for any investment in the H-Share ETF and should note that there may be various other risks or considerations not specifically

mentioned herein, but which may also need to be taken into account before making any decision to invest in the H-Share ETF.

Investors should carefully consider the risks involved in investing in the H-Share ETF together with all other information included in this offering document and satisfy themselves that the H-Share ETF is suitable for them having regard to their own circumstances, including their financial situation, investment experience and investment objectives before making an investment decision.

The NAV per Unit may fall or rise. There can be no assurance that an investor will achieve any return on an investment in the Units or a return on the capital invested. Investors should not invest in the H-Share ETF unless they fully understand and are willing to take the various risks associated with the underlying investments of the H-Share ETF (which may expose the H-Share ETF to significant losses in terms of income as well as principal), and have the financial resources necessary to bear the substantial, or even total, loss of the capital invested.

In addition, investors should avoid excessive investment in any single type of investment (in terms of its proportion in the overall investment portfolio) including any proposed investment in the H-Share ETF so as to avoid having the investment portfolio being over-exposed to any particular investment risk.

Many factors will affect the performance of the H-Share ETF.

The H-Share ETF's NAV will change based on changes in market conditions in response to other economic, political, monetary and financial developments. H-Share ETF's reaction to these developments will be affected by the types of securities in which H-Share ETF invests, the financial condition, industry and economic sector, and geographic location of an issuer, and H-Share ETF's level of investment in the securities of that issuer.

To the extent that the H-Share Index concentrates in the securities of a particular industry or group of industries, the Manager may similarly concentrate H-Share ETF's investments. H-Share ETF's performance could depend heavily on the performance of that industry or group of industries and could be more volatile than the performance of less concentrated funds.

In addition, because the Manager may invest a significant percentage of the H-Share ETF's assets in a single issuer, H-Share ETF's performance could be closely tied to that one issuer and could be more volatile than the performance of more diversified funds.

Index-tracking funds like H-Share ETF are not actively managed. The Manager does not have the discretion to select stocks individually or to take defensive positions in declining markets. Hence, any fall in the H-Share Index will result in a corresponding fall in the value of the H-Share ETF.

When you redeem or sell your Units they may be worth more or less than what you paid for them, which means that you could lose money.

The following additional factors should be borne in mind when deciding to invest in Units.

#### *NAV and Price Fluctuations*

The NAV per Unit of the H-Share ETF will generally fluctuate with changes in the H-Share Index. Intra-day highs and lows of the H-Share Index may be significantly different from its level at the end of the trading day. Units may be bought and sold in the secondary market through the SEHK at market prices which will fluctuate during the trading day. Although the market price of a Unit is expected to approximate its NAV, it is possible that the market price of a Unit and the NAV per Unit will vary due to, market demand and supply, liquidity and the "bid/ask" spread in the secondary market (as explained further below). As a result, the market price of a Unit in the secondary market could be higher or lower than the NAV per Unit.

As with any ETF, the market price of Units will be subject to a "bid/ask" spread – being the difference between the prices being bid by potential purchasers and the prices being asked by potential sellers. In times of severe market disruption or when there are an insufficient number of buyers and sellers of Units, the bid/ask spread may increase significantly. When the market price of Units is falling rapidly, Units are most likely to be traded at a discount to the NAV per Unit, which may be the time that you most want to sell your Units. However, the Manager believes that, under

normal market conditions, large discounts to or premiums in the market price of a Unit over the NAV per Unit will not be sustained because of arbitrage opportunities.

#### *Correlation to H-Share Index*

No assurance can be given that the performance of the H-Share ETF will be identical to the performance of the H-Share Index due to circumstances such as the fees and expenses of the H-Share ETF, imperfect correlation between the H-Share ETF's securities and those in the H-Share Index, timing differences associated with additions to and deletions from the H-Share Index, and changes in the number of shares outstanding of the constituent stocks in the H-Share Index. The assets of the H-Share ETF may not be fully invested in H-Share Index Constituent Stocks at times. Finally, the use of sampling techniques or futures or other derivative positions may affect the H-Share ETF's ability to achieve close correlation with the H-Share Index.

#### *Trading and Listing Issues*

If the H-Share Index is discontinued or the Manager's licence with the proprietor and provider of the H-Share Index is terminated, the Manager may, in consultation with the Trustee, seek the relevant regulators' prior approval to replace the H-Share Index with an index that is tradable and has similar objectives to the H-Share Index. For the avoidance of doubt, the index-tracking element of the H-Share ETF's investment objective would remain unchanged.

If the Units are delisted from the SEHK, the Manager may, in consultation with the Trustee, seek the relevant regulators' prior approval to operate the H-Share ETF as a traditional index fund and will notify investors accordingly. In this case, investors in the H-Share ETF would not be subject to any redemption fee should they wish to redeem their Units for cash. Alternatively, in such circumstances, the Manager may liquidate the H-Share ETF if the Trustee deems it to be in the best interests of investors and will notify the investors accordingly. Investors would then receive NAV per Unit (which may be higher or lower than the amount paid by the investors per Unit at the time of original investment) as of the date of liquidation as a result of the Manager having to liquidate all of the H-Share ETF's investments.

If Units deposited with CCASS become non-eligible securities for deposit with CCASS, Units will be transferred out of CCASS to the respective CCASS Participants (the nominee holders of Units). CCASS and HKSCC Nominees Limited (**HKSCC Nominees**) will inform the CCASS Participants about the "de-list day". Any expenses arising from such transfer and registration shall be borne by the H-Share ETF. In such circumstances, the Manager, the Trustee, CCASS and the CCASS Participants will use their best efforts to ensure that the transfer and registration of Units will be done in a timely manner. However, you should be aware that there could be a delay in transferring and registering the Units.

Although the Units are listed on SEHK, there can be no assurance that an active trading market will be maintained for the Units.

The composition of the H-Share Index may change and H-Share Index Constituent Stocks may be delisted.

#### *Stock Market Volatility*

The value of equity securities, including H-Shares, fluctuates in response to issuer, political, market, and economic developments. In the short term, equity prices can fluctuate dramatically in response to these developments. Different parts of the market and different types of equity securities can react differently to these developments. For example, large cap stocks can react differently from small cap stocks, and "growth" stocks can react differently from "value" stocks. Issuer, political or economic developments can affect a single issuer, issuers within an industry or economic sector or geographic region, or the market as a whole.

#### *Securities lending*

There are various risks from the H-Share ETF entering into securities lending transactions which include counterparty risk such as the possibility of a default by the counterparty, for example, if the counterparty fails to return the securities lent, regulatory risk where applicable laws or regulations make the transaction void or unenforceable and market risk from price volatility, market liquidity and exchange rate fluctuations.

### *Short selling*

The H-Share ETF may make short sales in the expectation of covering the short sale with securities purchased in the open market at a price lower than that received in the short sale. However, the possible losses to the H-Share ETF from short selling a security differ from losses that could be incurred from a cash investment in the same security. Such losses are unlimited due to the lack of an upper limit on the price to which a security may rise, whereas the maximum potential loss from a cash investment is a finite amount i.e. the total amount of the cash investment.

### *Issuer-Specific Changes*

Changes in the financial condition of an issuer, changes in specific economic or political conditions that affect a particular type of security or issuer, and changes in general economic or political conditions can affect the value of an issuer's securities. The value of securities of smaller, less well-known issuers can be more volatile than that of larger issuers. Such issuer-specific changes may have an impact on the H-Share Index Constituent Stocks.

### *Market-Makers*

There may or may not be market-makers for the H-Share ETF. Investors should note that liquidity in the secondary market for the Units may be adversely affected if there is no market-maker for the H-Share ETF.

### *General risks of investments associated with mainland China*

#### *Political and economic considerations*

The H-Share ETF tracks the H-Share Index and its investments include shares in Mainland incorporated enterprises which are listed on the SEHK and primarily traded in Hong Kong (**H-Shares**). Such enterprises have substantial business exposure to growth opportunities in the Mainland. However, investors should be aware that the economy of the Mainland differs from the economies of most developed countries in many respects, including with respect to government involvement in its economy, level of development, growth rate and control of foreign exchange. The regulatory and legal framework for capital markets and companies in the Mainland is not well developed when compared with those of developed countries.

By investing in H-Shares, the H-Share ETF is subject to the risks of investing in emerging markets generally and the risks specific to the Mainland market in particular, which are not typically associated with investing in those of developed countries. General risks of investing in emerging markets include but are not limited to:

- less liquid and less efficient securities markets;
- greater price volatility;
- exchange rate fluctuations and exchange controls;
- less publicly available information about issuers;
- the imposition of restrictions on the repatriation of funds or other assets out of the country;
- higher transaction and custody costs and higher settlement risks;
- difficulties in enforcing contractual obligations;
- lesser levels of regulation of the securities markets;
- different accounting, disclosure and reporting requirements;
- more substantial government involvement in the economy;
- higher rates of inflation;
- social, political and economic instability; and
- risk of nationalization or expropriation of assets and risk of war or terrorism.

The above may affect the ability of the H-Share ETF to fully implement or pursue the investment objective and strategy of the H-Share ETF.

Investors should be aware that, for more than 50 years, the PRC government has adopted a planned economic system. Since 1978, the PRC government has implemented economic reform measures which emphasize decentralization and the utilisation of market forces in the development of the Mainland economy. Such reforms have resulted in significant

economic growth and social progress. However, many of the economic reforms in the Mainland are unprecedented or experimental and are subject to adjustment and modification, and such adjustment and modification may not always have a positive effect on securities markets. Also, many laws and regulations in the Mainland are new and therefore untested and there is no certainty as to how they will be applied. They may also be varied in the future.

The Mainland economy has experienced significant growth in the past few years, but such growth has been uneven both geographically and among the various sectors of the economy. Moreover, there can be no assurance that such growth can be sustained.

Investments associated with the Mainland will be sensitive to any significant change in political, social or economic policy in the Mainland. Such sensitivity may, for the reasons specified above, adversely affect the capital growth and thus the performance of these investments.

#### PRC government's control of currency conversion and future movements in exchange rates

As part of its currency reforms, the PRC government abolished its two-tier exchange rate system with effect from 1 January 1994 and replaced it with a unified controlled floating exchange rate system based on the supply and demand in the market. On 21 July 2005, the PRC government began to implement a controlled floating exchange rate system based on the supply and demand in the market and adjusted with reference to a portfolio of currencies. The exchange rate of Renminbi is no longer pegged to the US dollar, resulting in a more flexible Renminbi exchange rate system. China Foreign Exchange Trading System, authorised by the People's Bank of China ("PBOC"), promulgates the central parity rate of Renminbi against US dollar, Euro, Yen and Hong Kong dollar at 9:15 a.m. on each business day, which will be the daily central parity rate for transactions on the Inter-bank Spot Foreign Exchange Market and OTC transactions of banks. The exchange rate of Renminbi against the above-mentioned currencies fluctuates within a range above or below such central parity rate. As the exchange rates are based primarily on market forces, the exchange rates for Renminbi against other currencies, including US dollars and Hong Kong dollars, are susceptible to movements based on external factors. There can be no assurance that such exchange rates will not fluctuate widely against US dollars, Hong Kong dollars or any other foreign currency in the future.

From 1994 to July 2005, the exchange rate for Renminbi against the US dollar and the Hong Kong dollar has been relatively stable. Since July 2005, the appreciation of Renminbi has begun to accelerate notably. Although the PRC government has constantly reiterated its intention to maintain the stability of the Renminbi, it may introduce measures (such as a reduction in the rate of export tax refund) to address the concerns of the PRC's trading partners. Therefore, the possibility that the appreciation of Renminbi will be further accelerated cannot be excluded. On the other hand, there can be no assurance that the Renminbi will not be subject to devaluation. Any devaluation of the Renminbi could adversely affect the value of investors' investments in the H-Share ETF.

#### Accounting, auditing and financial reporting standards and practices

Accounting, auditing and financial reporting standards and practices applicable to companies in the Mainland may be different to those standards and practices applicable to countries that have more developed financial markets. For example, there are differences in the valuation methods for properties and assets and in the requirements for disclosure of information to investors.

#### Legal system

The legal system of the Mainland in general and for securities markets in particular have been undergoing a period of rapid change over recent years which may lead to difficulties in interpreting and applying newly evolving regulations. The revised Securities Law which came into force on 1 January 2006 has made a comprehensive revision to the old Securities Law relating to the issuing, listing and trading system etc. of securities.

The PRC government has implemented a number of tax reform policies in recent years. There can be no assurance that the current tax laws and regulations will not be revised or amended in the future. Any revision or amendment in tax laws and regulations may affect the after-taxation profit of companies in the Mainland.

For tax consideration in the PRC, please refer to the section headed "Taxes and Duties Payable by the H-Share ETF".

## Purchase and Sale of Units on SEHK and Creation and Redemption of Units

Investors may:

- (1) purchase and sell Units in the secondary market on the SEHK; and/or
- (2) apply for in-kind creation and redemption through Participating Dealers.

For Hang Seng China H-Share Index Fund, special creations and redemptions for the Units (both in cash and in-kind) through the Manager are available.

### *Purchase and sale of Units on SEHK*

Investors can purchase and sell Units in board lots of 200 Units (or multiples thereof) like ordinary listed stocks through an intermediary such as a stockbroker or any of the share dealing services offered by banks or other financial advisers at any time the SEHK is open.

**However, investors should note that transactions in the secondary market on the SEHK occur at market prices which may vary throughout the day and may differ from NAV per Unit due to market demand and supply, liquidity and scale of trading spread for the Units in the secondary market. As a result, the market price of the Units in the secondary market may be higher or lower than NAV per Unit.**

Please refer to the section headed “Fees and Charges Payable by Investors for Dealing in the Units on the SEHK” for fees payable by investors in secondary market trading.

### *In-kind Creation and Redemption*

Investors may also apply for in-kind creation of Units based on NAV per Unit through Participating Dealers by tendering a basket (**Basket**) of the constituent stocks of the H-Share Index and a cash amount (**Cash Component**) as determined and announced by the Manager in advance. In-kind redemptions of Units based on NAV per Unit can also be made in a similar manner by tendering the relevant number of Units in exchange for the Basket and Cash Component. Investors should note that in-kind creations and redemptions are made in high minimum transaction sizes and the current in-kind minimum transaction size is 100,000 Units (or multiples thereof). In addition, by applying for an in-kind creation or an in-kind redemption, investors are essentially exchanging the underlying constituent stocks of the H-Share Index for the Units (in the case of creations) and vice versa (in the case of redemptions). There is no material change in market exposure of their holdings. In other words, their exposure to the H-Share market is neither increased nor decreased through an in-kind creation or redemption but investors should note that the H-Share ETF will be subject to tracking error due to fees and other factors.

In determining the composition of the Basket, the Manager will take into account the H-Share ETF's index tracking strategy, the weightings of constituent stocks in the H-Share Index and any forthcoming index rebalancing event. The Cash Component is the cash value of the difference between the NAV of the Units comprising the application and the closing market value of the Basket on the Dealing Day the in-kind creation or redemption application is received. The Cash Component may be positive or negative.

The cut-off time (**Dealing Deadline**) for making an in-kind creation application and an in-kind redemption application by a Participating Dealer is 15 minutes after the official closing time of the SEHK on each Dealing Day, or such other time prior to the calculation of the Net Asset Value of the H-Share ETF on that Dealing Day as the Manager may determine and agree with the Trustee. The current Dealing Deadline is 4:15 p.m. (Hong Kong time) if it is a full trading day on the SEHK or if the SEHK opens for normal trading only in the afternoon, or 12:45 p.m. (Hong Kong time) if the SEHK opens for normal trading only in the morning of the relevant Dealing Day.

Units will be issued against the relevant Basket and Cash Component (or vice versa) two CCASS Settlement Days after receipt of the application, or on such later date as determined by the Manager.

Please refer to Appendix 3 for the operational procedures in respect of in-kind creation and redemption applications. A Transaction Fee is applied to each in-kind creation and redemption, please refer to Appendix 1 for details.

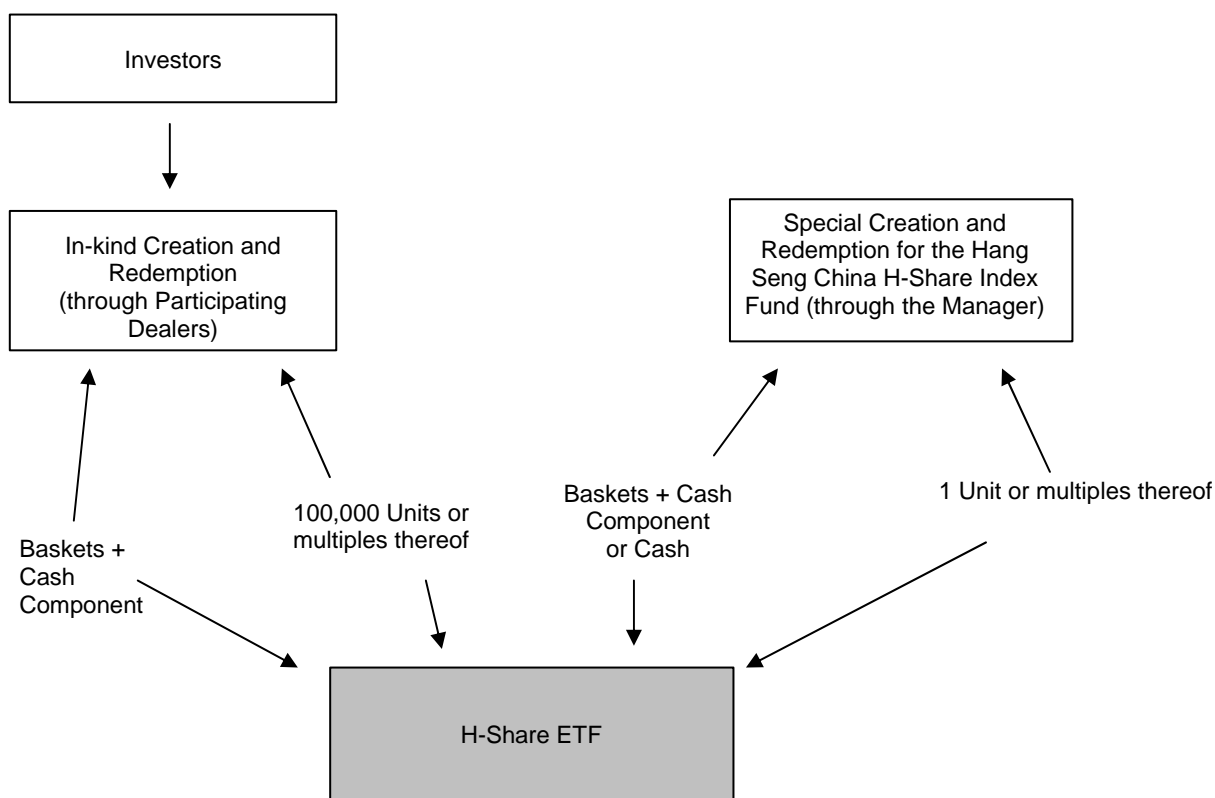
*Special creations and redemptions*

The Manager may also facilitate cash subscriptions and cash redemptions and in-kind creations and in-kind redemptions of Units by the Hang Seng China H-Share Index Fund. The minimum sizes for in-kind creations and in-kind redemptions of Units through Participating Dealers described above do not apply to such cash subscriptions and redemptions for the Hang Seng China H-Share Index Fund.

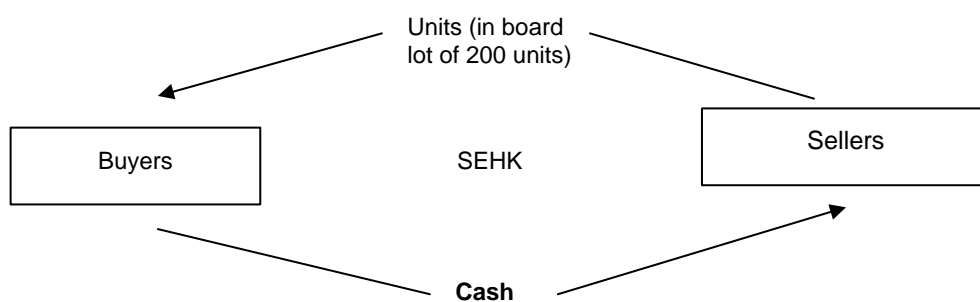
The Dealing Deadline for making a special creation application and a special redemption application by the Hang Seng China H-Share Index Fund is the official closing time of the SEHK on the relevant Dealing Day, or such other time prior to the calculation of the Net asset Value of the H-Share ETF on that Dealing Day as the Manager may determine and agree with the Trustee. The current Dealing Deadline is 4:00 p.m. (Hong Kong time) if it is a full trading day on the SEHK or if the SEHK opens for normal trading only in the afternoon, or 12:30 p.m. (Hong Kong time) if the SEHK opens for normal trading only in the morning of the relevant Dealing Day.

The below diagrams illustrate the creation and redemption of Units and trading of Units in the secondary market:

(1) Creation and redemption of Units



(2) Trading of Units in the secondary market



## Certificates

No physical certificates in respect of the Units will be issued.

All Units will be registered in the name of HKSCC Nominees on the register of H-Share ETF. The register of the H-Share ETF is the evidence of ownership of Units. Your beneficial interest in Units shall be established through your account with your chosen CCASS Participant or, as the case may be, other intermediary.

## Summary of Different Trading Methods of Units and Related Fees

<u>Different Trading Methods of Units</u>	<u>Minimum Number of Units (multiple of)</u>	<u>Channel</u>	<u>Available to</u>	<u>Consideration, Fees and Charges<sup>1</sup></u>
Purchase and sale in cash through brokers on SEHK (secondary market)	board lot of 200	On SEHK	<b>Any investor</b> satisfying the minimum unit requirements	Market price of Units on SEHK Brokerage Fees and duties and charges (See Appendix 1)
In-kind Creation and Redemption	100,000	Through Participating Dealers	<b>Any investor</b> satisfying the minimum unit requirements	Basket Cash Component Transaction Fee Other Fees & Charges (payable to HKSCC and HKCAS)
Special Creation and Redemption	1	Through the Manager	<b>Hang Seng China H-Share Index Fund only</b>	Basket + Cash Component (in-kind) or Issue Price (in-cash)

<sup>1</sup> For details, please see the section headed "Fees and Charges payable by Investors for Dealing in the Units on the SEHK".

No money should be paid to any intermediary in Hong Kong who is not licensed or registered to carry on Type 1 (dealing in securities) regulated activity under Part V of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

### *Rejection of Applications*

The Manager reserves the right to reject applications to subscribe for/create Units.

### *Fractional Units*

The H-Share ETF will not issue fractional Units.

## Determination of Net Asset Value

The Net Asset Value of the H-Share ETF will be determined in accordance with its trust deed (**Trust Deed**). The Manager may, with the consent of the Trustee, adjust the value of any investment made by the H-Share ETF or permit some other method of valuation of such investment to be used if, having regard to exchange rates, applicable rates of interest, maturity dates, marketability and other considerations the Manager deems relevant, the Manager considers such adjustment or use of such other method is required to reflect the fair value of such investment.

Net Asset Value will be determined as at each Valuation Point on each Dealing Day.

### **Suspension of the Determination of Net Asset Value and the Right to Redeem Units**

The Manager may, after giving notice to the Trustee, declare the suspension of the determination of Net Asset Value of the H-Share ETF and the right to redeem Units for the whole, or any part of, any period when:

- (1) the SEHK is closed;
- (2) dealings on the SEHK or the Hong Kong Futures Exchange Limited are restricted or suspended;
- (3) the settlement or clearing of dealings via CCASS is disrupted;
- (4) the H-Share Index is not compiled or published;
- (5) there exists any state of affairs as a result of which delivery or purchase of H-Share Index Constituent Stocks or disposal of investments for the time being comprised in the H-Share ETF cannot, in the opinion of the Manager, be effected normally or without prejudicing the interests of investors in the H-Share ETF;
- (6) there is any breakdown in the means normally employed in determining Net Asset Value or when, for any other reason, the value of any investment of the H-Share ETF cannot, in the opinion of the Manager, be reasonably, promptly and fairly be ascertained; or
- (7) the remittance or repatriation of other funds which will or may be involved in the realisation of, or in the payment for, investments of the H-Share ETF or the issue or redemption of Units is delayed or cannot, in the opinion of the Manager, be carried out promptly at normal rates of exchange.

Any such suspension shall take effect forthwith upon the declaration thereof and thereafter there shall be no determination of the Net Asset Value until the Manager shall declare the suspension at an end, except that the suspension shall terminate in any event on the day following the first Dealing Day on which (i) the condition giving rise to the suspension shall have ceased to exist and (ii) no other condition under which suspension is authorised shall exist.

Whenever the Manager declares such a suspension it shall, as soon as may be practicable after any such declaration, publish a notice on [www.hangseng.com/etf](http://www.hangseng.com/etf) and SEHK's website [www.hkex.com.hk](http://www.hkex.com.hk) and/or cause a notice to be given to investors and to all those (whether investors or not) whose applications to redeem Units shall have been affected by such suspension stating that such declaration has been made.

No Units relating to the H-Share ETF will be issued or redeemed during such a period of suspension.

### **Suspension of Dealings in Units on the SEHK**

Dealings in Units on the SEHK may at any time be suspended by the SEHK if the SEHK considers it necessary for the protection of investors or for the maintenance of an orderly market in such circumstances and subject to such conditions as the SEHK sees fit.

### **Calculation of Issue Price and Redemption Price**

The Trust Deed provides that the Issue Price or Redemption Price of each Unit for any relevant Dealing Day will, subject to the qualification below, be based on the Net Asset Value of the H-Share ETF at the Valuation Point divided by the number of Units then in issue or deemed to be in issue, rounded to the nearest two decimal places with any amount of 0.005 or above being rounded up (unless otherwise agreed by the Manager and the Trustee). The benefit of any such rounding shall accrue to the H-Share ETF.

To ensure all investors in the H-Share ETF are treated fairly, for cash subscriptions and redemptions, where the number of Units to be issued on a Dealing Day exceeds the number of Units to be redeemed on that Dealing Day, the Manager may, in determining the Issue Price of a Unit, add to the NAV per Unit (before making any rounding adjustment) an amount, for the account of the H-Share ETF, which it considers to be an appropriate allowance to reflect duties and charges which would be incurred if the appropriate number of H-Shares were purchased at the values attributed to them in calculating the NAV per Unit. Similarly, for cash subscriptions and redemptions where the number of Units to be redeemed on a Dealing Day exceeds the number of Units to be issued on that Dealing Day, the Manager may, when determining the Redemption Price of any Unit, deduct for the account of the H-Share ETF from the NAV per Unit (before making any rounding adjustment) an amount which it considers to be an appropriate

allowance to reflect the duties and charges which would be incurred if the appropriate number of H-Shares were to be sold at the values attributed to them in calculating the NAV per Unit.

### **Market Price**

Dealings in the Units on the secondary market may be effected at market prices on the SEHK which may vary throughout the day and may be higher or lower than the NAV per Unit.

### **Fees and Expenses Payable by the H-Share ETF**

For details of the amount of fees and expenses currently payable by the H-Share ETF, please see “Appendix 1 – Current Fees and Charges”.

#### *Management Fee*

H-Share ETF pays the Manager a monthly fee calculated by reference to daily NAV. Any increase from the current level up to the maximum level (please refer to Appendix 1) will be announced or published on the SEHK’s website [www.hkex.com.hk](http://www.hkex.com.hk) and via [www.hangseng.com/etf](http://www.hangseng.com/etf). Any increase in the maximum level must be approved by registered holders of Units in the H-Share ETF at an extraordinary general meeting.

#### *Trustee Fee*

H-Share ETF pays the Trustee a monthly fee calculated by reference to daily NAV. Any increase from the current level up to the maximum level (please refer to Appendix 1) will be announced or published on the SEHK’s website [www.hkex.com.hk](http://www.hkex.com.hk) and via [www.hangseng.com/etf](http://www.hangseng.com/etf). Any increase of the maximum level must be approved by registered holders of Units in the H-Share ETF at an extraordinary general meeting.

#### *Other Expenses*

The H-Share ETF bears the expenses which are attributable to it. Such expenses include but are not limited to the costs of the Manager investing on behalf of H-Share ETF (including applicable duties), the fees and expenses of the custodians of its assets, the fees and expenses of the Registrar, the fees and expenses of its auditors, valuation costs, legal fees, index licensing fees, the costs incurred in connection with listing the Units on the SEHK and authorisation as a collective investment scheme by the SFC, the costs of preparation and publication of this offering document and the Trust Deed, the costs of communicating with and holding meetings of investors, the costs incurred in the preparation and printing of any document or reports to investors (including, as may be agreed to the Manager, postage costs incurred by any nominee for the benefit of the underlying investors in distributing such reports) and all other operating costs.

#### *Soft dollar benefits*

Neither the Manager nor persons connected to it will receive cash or other rebates from brokers or dealers in respect of transactions for the account of the H-Share ETF. However, the Manager and persons connected to it may enter into soft commission arrangements with brokers or dealers for the provision to the Manager or persons connected to it of goods and services which are of demonstrable benefit to investors. Execution of transactions for the H-Share ETF will be consistent with best execution standards and brokerage rates borne by H-Share ETF will not be in excess of customary institutional full-service brokerage rates.

### **Fees and Charges Payable by Investors for Dealing in the Units on the SEHK**

Investors are required to pay brokerage fees, transaction levies, investor compensation levies, SEHK trading fees and stamp duty in respect of any dealing in the Units on the SEHK. For details of the amount of fees currently payable, please see “Appendix 1“ Current Fees and Charges”.

## **Dividend Policy**

All of the income earned by the H-Share ETF will, at the discretion of the Manager, be distributed by way of semi-annual cash dividends (if any), which are expected to be in respect of the first half of each calendar year and the second half of each calendar year respectively and details of dividend declaration dates, dividend amounts, ex-dividend dates and dividend payment dates shall be published on [www.hangseng.com/etf](http://www.hangseng.com/etf) and via the SEHK's website [www.hkex.com.hk](http://www.hkex.com.hk).

## **Reporting to Investors**

### *Reports and Accounts*

The year-end of the H-Share ETF is 31 December in each calendar year. An audited annual report and accounts will be sent to unitholders within four months of the end of each financial year.

The semi-annual unaudited financial reports and accounts will also be sent to registered holders of Units in the H-Share ETF within two months of the period which they cover.

The semi-annual and annual financial reports will also provide a summary illustrating the differences between the daily closing price for the Units on the SEHK and its NAV per Unit over the reporting period.

### *H-Share ETF Information on the Internet*

The Manager will publish information with respect to the H-Share ETF, both in Chinese and in English, on [www.hangseng.com/etf](http://www.hangseng.com/etf) (and a hyperlink from SEHK's website [www.hkex.com.hk](http://www.hkex.com.hk) is also available). You should regularly review such information. Such information will include:

- this offering document, as it may be updated from time to time;
- the latest semi-annual and annual financial reports of the H-Share ETF; and
- any public announcements made by the H-Share ETF, including information with respect to any change in manager or trustee, fees, management of the Manager, key service providers to H-Share ETF (such as the conversion agent, registrar or auditors), investment objective, underlying index, as well as notices of the suspension of the calculation of NAV, suspension and resumption of trading, termination of the H-Share ETF or its merger with another collective investment scheme.

The composition of a Basket shall appear on every Dealing Day via SEHK's website at [www.hkex.com.hk](http://www.hkex.com.hk) for Participating Dealer's in-kind creation and redemption of Units.

### *Real-time Trading Information*

Information on the bid/ask price, queuing display, the previous day's closing NAV and the intraday estimated NAV (or RUPV) of the H-Share ETF are disclosed on a real time basis on the information pages of SEHK.

### *Information About the H-Share Index*

Information regarding the H-Share Index and the index provider of such index can be found in Appendix 2. Real-time updates about the H-Share Index can be obtained through Reuters, Bloomberg, Moneyline Telerate and on [www.hsi.com.hk](http://www.hsi.com.hk) the latter of which contains the additional and latest updated information about the H-Share Index and a description of the way in which such index is calculated. It is your own responsibility to obtain the current H-Share Index information (including without limitation, any change in the composition of the H-Share Index, any change in the method for compiling and calculating the H-Share Index) via the [www.hsi.com.hk](http://www.hsi.com.hk) website. Please refer to the section headed "References to Websites" for the warning and the disclaimer regarding information contained in such website.

### *Information About H-Share Index Constituent Stocks*

Information on the individual H-Share Index Constituent Stock can be obtained from SEHK's website at [www.hkex.com.hk](http://www.hkex.com.hk) or by checking the official website of the relevant H-Share Index Constituent Stock. It is your own responsibility to check up the latest updated information on the individual H-Share Index Constituent Stock including but not limited to events arising from the affairs of the H-Share Index Constituent Stocks such as any price sensitive information disclosed by the issuer of any individual H-Share Index Constituent Stock, any announcement regarding any suspension of a H-Share Index Constituent Stock from trading on the SEHK. Please refer to the section headed "References to Websites" for the warning and the disclaimer regarding information contained in such websites and sources.

### **H-Share ETF Management**

#### *Manager / Listing Agent*

The manager and listing agent of the H-Share ETF is Hang Seng Investment Management Limited. The Manager may appoint other investment managers or investment advisers to assist the Manager with managing the H-Share ETF. No such investment manager or investment adviser has yet been appointed as at the date of this offering document.

The Manager is a wholly-owned subsidiary of Hang Seng Bank Limited (**Hang Seng Bank**) and is the investment arm of its parent. The Manager provides investment management services to Hang Seng Bank and Hang Seng Bank's customers and has extensive experience in managing index-tracking funds, retirement funds, institutional accounts and private client portfolios. It is the fund manager of Hang Seng Index Fund which was launched in 1998 and is one of the early index funds in Hong Kong to track the performance of Hang Seng Index. It also manages an MPF fund namely Hang Seng Index Tracking Fund under the Hang Seng and HSBC MPF master trusts.

Founded in 1933, Hang Seng Bank is a principal member of the HSBC Group, one of the world's largest banking and financial services organisations. The Bank operates over 210 service outlets, of which 106 are branches serving both personal and business customers. The Bank also maintains a branch in Shenzhen for foreign currency wholesale business, branches in Macau and Singapore, and representative offices in Xiamen and Taipei. Established on 28 May 2007, wholly-owned subsidiary Hang Seng Bank (China) Limited operates a mainland China network of 33 outlets in Beijing, Shanghai, Guangzhou, Shenzhen, Dongguan, Fuzhou, Nanjing, Hangzhou, Ningbo, Tianjin and Kunming. With consolidated assets of HK\$762.2 billion as at 31 December 2008, the Bank reported a profit attributable to shareholders of HK\$14,099 million in 2008.

As a wholly-owned subsidiary of Hang Seng Bank, the Manager has the full financial and technical support from its parent including its computer operating systems and internal control procedures.

#### *Trustee, Custodian and Registrar*

The trustee of the H-Share ETF is HSBC Provident Fund Trustee (Hong Kong) Limited. The Trustee is also the custodian of H-Share ETF's assets and its registrar.

The Trustee is responsible for the safe-keeping of the assets of the H-Share ETF. The Trustee may also appoint any other person or persons to be the custodian of the H-Share ETF's assets or to act as registrar. The Trustee is required to exercise reasonable skill, care and diligence in the selection, appointment and monitoring of such person(s) and, during the term of their appointment, must satisfy itself as to the ongoing suitability of such person(s) to provide custodial services or registrar services (as the case may be), having regard to the market for which such person(s) is appointed.

#### *Conversion Agent*

The conversion agent in respect of the H-Share ETF is HK Conversion Agency Services Limited (**HKCAS**), a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited. The conversion agent performs services under the terms of the Conversion Agency Agreement entered into among the Manager, the Conversion Agent and HKSCC in connection with the creation and redemption of Units by Participating Dealers.

### *Participating Dealers*

A Participating Dealer is a broker or dealer who acts for its own account or for the account of its clients to make in-kind creation and in-kind redemption applications for a large minimum number of 100,000 Units (or multiples thereof). The latest list of the Participating Dealers is available at [www.hangseng.com/etf](http://www.hangseng.com/etf).

### *Market Makers (if any)*

A market maker is a broker or dealer permitted by SEHK to act as such by making a market for the Units in the secondary market and whose obligations include quoting bid prices to potential sellers and offer prices to potential buyers when there is a wide spread between the prevailing bid prices and offer prices for the Units on the SEHK. Market makers facilitate the efficient trading of Units by providing liquidity in the secondary market when it is required, in accordance with the market making requirements of the SEHK. If SEHK withdraws its permit to the existing market maker(s), the Manager will endeavour to ensure that there is at least one other market maker to facilitate the efficient trading of Units. The latest list of market makers is available at [www.hkex.com.hk](http://www.hkex.com.hk). Please refer to the section headed "References to Websites" for the warning and the disclaimer regarding information contained in such website.

### *Hang Seng Data Services Limited*

Hang Seng Data Services Limited (**HSDS**) is the proprietor and absolute owner of all of the goodwill, rights, title and interest in the name and mark of the H-Share Index and has granted a licence in respect of the use of such name and mark to Hang Seng Indexes Company Limited (**HSIL**), which manages and compiles the H-Share Index and is the index provider to the H-Share ETF. Additional information about HSIL is available at [www.hsi.com.hk](http://www.hsi.com.hk). Please refer to the section headed "References to Websites" for the warning and the disclaimer regarding information contained in such website.

### **Conflicts of Interest that may apply to the H-Share ETF**

The Manager and the Trustee may from time to time act as trustee, administrator, registrar, secretary, manager, custodian, investment manager or investment adviser or provide other services in relation to, or be otherwise involved in or with, other funds and clients which have a similar investment objective to H-Share ETF. It is possible that in the course of transactions between the H-Share ETF and the connected persons to the Manager and/or the Trustee, there may be potential conflicts of interest with the H-Share ETF. If such conflicts arise, the Manager will use its best efforts to ensure that investors in the H-Share ETF are treated fairly.

The Manager and the connected persons to it may deal with the H-Share ETF as principal. Such transactions will only be made with the prior written consent of the Trustee and such transactions will be disclosed in the H-Share ETF's audited annual report.

The Manager, the Trustee and persons connected to the Manager and/or the Trustee may have banking or other financial relationships with a company whose shares are an H-Share Index Constituent Stock.

The Manager, the Trustee and persons connected to the Manager and/or the Trustee may hold and deal in Units or in investments held by the H-Share ETF either for their own account or for the account of their customers.

The moneys of H-Share ETF may be deposited with persons connected to the Manager and/or the Trustee or invested in certificates of deposit or banking instruments issued by such persons at an interest rate will be no lower than a rate negotiated at arm's length.

The index provider, HSIL, and the index proprietor, HSDS are both members of the HSBC group of companies.

The operating parties (including the Manager, the Trustee, Participating Dealers and market makers) may have banking or other financial relationships with each other. Situations may arise where there are conflicts of interest among such entities. If such conflicts arise, the Manager will use its best efforts, to ensure that investors in the H-Share ETF are treated fairly.

The Manager is also the manager of Hang Seng China H-Share Index Fund.

## **Taxes and Duties Payable by the H-Share ETF**

The information below regarding taxation and duties is based on advice received by the H-Share ETF regarding the law and practice in force in Hong Kong and in mainland China at the date of this offering document.

### Hong Kong

#### *Profits Tax*

As an Authorised Fund, profits of H-Share ETF arising from the sale or disposal of securities, net investment income received by or accruing to the H-Share ETF and all other profits of the H-Share ETF are exempted from Hong Kong profits tax.

#### *Stamp Duty*

Pursuant to a remission order issued by the Secretary for the Treasury of Hong Kong on 20 October 1999, any Hong Kong stamp duty (i.e. fixed and ad valorem) on the transfer of a Basket to an ETF by an investor as consideration for an allotment of Units will be remitted or refunded. Similarly, Hong Kong stamp duty on the transfer of a Basket by the H-Share ETF to an investor upon redemption of Units will also be remitted or refunded.

No Hong Kong stamp duty is payable by the H-Share ETF on an issue or redemption of Units in cash.

The sale and purchase of H-Share Index Constituent Stocks by H-Share ETF will be subject to stamp duty at the current rate of 0.2% of the price of the Hong Kong stocks being sold and purchased. The H-Share ETF will be liable to one half of such Hong Kong stamp duty.

### Mainland China

By investing in H-Shares, the H-Share ETF is subject to withholding income tax imposed in the PRC. The H-Share ETF may also be subject to other taxes imposed in the PRC.

Under the PRC Enterprise Income Tax Law and its implementation rules, incomes derived from the PRC by non-resident enterprises which have no establishment or place in the PRC are subject to withholding tax. As such, in respect of the investments of the H-Share ETF in H-Shares, it is subject to withholding tax on incomes (such as dividends on such H-Shares) derived from the PRC; and such withholding tax may reduce the income from, and/or adversely affect the performance of the H-Share ETF. However, there are still uncertainties as to the application of the PRC Enterprise Income Tax Law and its implementation rules (e.g. it is not clear as to whether gains on disposal of such H-Shares would be subject to withholding tax). To ensure fairness to all unitholders, the Manager reserves the right to make any provision for taxes or to deduct or to withhold an amount on account of taxes (which may be payable by the H-Share ETF to the PRC tax authorities in respect of its investments in the relevant shares) from assets of the H-Share ETF.

Furthermore, there is a possibility that the current tax laws, rules, regulations and practice in the PRC and/or the current interpretation or understanding thereof may change in the future and such change(s) may have retrospective effect. The H-Share ETF could become subject to additional taxation that is not anticipated as at the date hereof or when the relevant investments are made, valued or disposed of. Any of those changes may reduce the income from, and/or the value of, the relevant investments in the H-Share ETF.

Any provision for taxes made by the Manager may be more than or less than the actual PRC tax liabilities of the H-Share ETF. In case of a shortfall in the provision for taxes of the H-Share ETF, the relevant amounts shall be debited from the assets of the H-Share ETF to meet its actual PRC tax liabilities. As a result, the income from, and/or the performance of the H-Share ETF may be reduced/adversely affected and the impact/degree of impact on individual unitholders of the H-Share ETF may vary, depending on factors such as the level of the provision for taxes of the H-Share ETF and the amount of the shortfall at the relevant time and when the relevant unitholders subscribed for and/or redeemed their Units in the H-Share ETF.

## **Taxes and Duties Payable by Investors**

*You should consult your professional advisers on the consequences to you of acquiring, holding, redeeming, transferring or selling Units under the relevant laws of the jurisdictions to which you are subject, including the tax consequences and any exchange control requirements. The consequences, including the availability of, and the value of, tax relief will vary with the law and practice of your country of citizenship, residence, domicile or incorporation and your personal circumstances.*

The information below regarding taxation and duties is based on advice received by the H-Share ETF regarding the law and practice in force in Hong Kong at the date of this offering document. You should be aware that levels and bases of taxation are subject to change and that the value of any relief from taxation depends upon your personal circumstances. The following statements are intended as a general guide only and do not necessarily describe the tax consequences for all types of investors in the H-Share ETF and no reliance, therefore, should be placed upon them.

### Hong Kong

#### *Tax*

Hong Kong profits tax is not payable by the investors in respect of profits from the purchase and sale of Units or other securities effected outside Hong Kong, interest arising or derived from outside Hong Kong and profits in the nature of capital gains rather than trading profits and income or profits otherwise exempted under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong).

There is generally no capital gains tax payable on the sale of securities or other investments such as Units, save and except that where a person is or is deemed as carrying on a trade, profession or business in Hong Kong, gains or profits on the sale of such securities or investments may be treated as normal trading receipts from that trade, profession or business and thus attracts profits tax.

Distributions to unitholders are not subject to deduction of withholding taxes.

#### *Stamp Duty*

Pursuant to a remission order issued by the Secretary for the Treasury for Hong Kong on 20 October 1999, any Hong Kong stamp duty (i.e. fixed and ad valorem) on the transfer of a Basket to an ETF by an investor as consideration for an allotment of Units will be remitted or refunded. Similarly, Hong Kong stamp duty on the transfer of a Basket by the H-Share ETF to an investor upon redemption of Units will also be remitted or refunded.

The sale and purchase of Units by an investor in the secondary market will attract Hong Kong stamp duty at the current rate of 0.2% of the price of the Units being sold and purchased. The seller of the Units and the purchaser of the Units will each be liable for one-half of such Hong Kong stamp duty.

No Hong Kong stamp duty is payable by an investor in relation to an issue of Units to him or her or the redemption of Units by him or her.

## **Trust Deed and Participation Agreements**

The Trust was established under Hong Kong law by the Trust Deed made between the Manager, the Trustee and the Index Proprietor. There are a number of Participating Dealers for the H-Share ETF and each has entered into a Participation Agreement. All investors are entitled to the benefit of, are bound by and are deemed to have notice of, the provisions of the Trust Deed and those in the form of the Participation Agreement. In the event of any inconsistency between any of the provisions of this offering document and those of the Trust Deed or of the form of Participation Agreement, the provisions of the Trust Deed or of the form of Participation Agreement shall prevail. The Trust Deed contains provisions for the indemnification of the Trustee and the Manager and their relief from liability in certain circumstances. You should refer to the relevant terms of the Trust Deed for further details.

## **Supply and Inspection of Documents**

You may inspect a copy of the H-Share ETF's constitutive documents, including the Trust Deed, and its agreement with the Conversion Agent and the form of the Participation Agreement free of charge at any time during normal business hours on any day (excluding Saturdays, Sundays and public holidays) at the offices of the Manager, 83 Des Voeux Road Central, Hong Kong and copies may be purchased at that address on payment of a reasonable fee.

## **General Information**

### *Anti-Money Laundering Regulations*

As part of the Trustee's and the Manager's responsibility to prevent money laundering, they may require detailed verification of your identity and the source of your payment for any investment in Units.

### *The Codes on Takeovers and Mergers and Share Repurchases*

You should be aware that any shareholding of H-Share Index Constituent Stocks resulting from an "in-kind" redemption of Units may be subject to the application of the Hong Kong Takeovers Code. In circumstances where you hold a significant amount of H-Share Index Constituent Stocks you should consult a solicitor or financial adviser so as to ensure full compliance with the Hong Kong Takeovers Code.

### *Notices to Investors*

With the prior consent of the SFC and the SEHK (as the case may be), notice of general matters may be given to investors in the Units by publication on [www.hangseng.com/etf](http://www.hangseng.com/etf) and via the SEHK's website [www.hkex.com.hk](http://www.hkex.com.hk). In all other cases, as required by the SFC, notices will be sent to investors by post to their mailing address or, if approved by the SFC and agreed with the relevant investors, by electronic mail, electronic publication or other electronic means.

### *Meetings of Investors*

The Trust Deed provides for meetings of investors to be convened by the Trustee or the Manager upon at least 21 days' notice.

Proxies may be appointed. The quorum at any meetings is investors present in person or by proxy holding not less than 10% (or, in relation to a resolution proposed as an extraordinary resolution, 25%) of the Units in issue. If a quorum is not present, the meeting will be adjourned for not less than 15 days. At an adjourned meeting investors in the Units who are present at the adjourned meeting, whatever their number or the number of units held by them, will form a quorum.

An extraordinary resolution is required under the Trust Deed for certain purposes and is a resolution proposed as such and passed by 75% or more of the total number of votes cast.

The Trust Deed provides that at any meeting of investors in the Units, on a poll, every investor who (being an individual) is present in person or (being a partnership or corporation) is present by an authorised representative shall have one vote for every unit of which he is the holder.

### *Responsibility Statement*

The directors of the Manager accept responsibility for the information contained in this offering document as being accurate at the date of publication.

## **Termination of the H-Share ETF**

The H-Share ETF may be terminated by the Trustee in the following circumstances

- (a) if the Manager shall go into liquidation (except a voluntary liquidation for the purpose of reconstruction or amalgamation upon terms previously approved in writing by the Trustee) or if a receiver is appointed over any of its assets and is not discharged within 60 days;
- (b) if in the opinion of the Trustee the Manager shall be incapable of performing or shall in fact fail to perform its duties satisfactorily or shall do any other thing which in the opinion of the Trustee is calculated to bring the H-Share ETF into disrepute or to be harmful to the interests of investors;
- (c) if any law shall be passed which renders it illegal or in the opinion of the Trustee impracticable or inadvisable to continue the H-Share ETF;
- (d) if the Manager shall have ceased to be the Manager and, within a period of 30 days thereafter, no other person acceptable to the SFC shall have been appointed by the Trustee as successor Manager; or

- (e) if the H-Share Index is discontinued or the Manager's license with the index provider and index proprietor is terminated or if the Units cease to be listed on the SEHK.

### **References to Websites**

The offer of the Units is made solely on the basis of information contained in this offering document and information on the H-Share ETF from time to time published or announced on the SEHK's official website and the website [www.hangseng.com/etf](http://www.hangseng.com/etf). All references in this offering document to other websites and sources where further information may be obtained are merely intended to assist you to access further information relating to the subject matter indicated and such information does not form part of this offering document. None of the Listing Agent, the Manager or the Trustee accepts any responsibility whatsoever for ensuring that the information contained in such other websites and sources, if available, is accurate, complete and/or up-to-date, and no liability is accepted by the Listing Agent and the Manager and the Trustee in relation to any person's use of or reliance on the information contained in these other websites and sources. You should exercise an appropriate degree of caution when assessing the value of such information.

## Appendix 1 – Current Fees and Charges

### (1) Fees and Expenses Payable by the H-Share ETF

Management Fee	<b>0.55%</b> per annum may be increased up to a maximum of 1% per annum without prior notice to unitholders
Trustee Fee	<b>0.05%</b> per annum may be increased up to a maximum of 0.15% per annum

There will be other expenses which will be borne by the H-Share ETF including the fees and expenses of the registrar, auditors, legal fees, index licensing fees, printing costs on publication of this offering document and the Trust Deed, etc. Please refer to the section headed “Fees and Expenses Payable by the H-Share ETF” for details.

### (2) Fees and Charges payable by investors in the H-Share ETF

#### (i) Payable by Participating Dealers for in-kind creation or redemption

<u>Fee Payable Upon</u>	<u>Fee (if applicable)</u>	<u>Amount (HK\$)</u>	<u>Payable to</u>
In-kind Application to Issue Units	Corporate action fee	HK\$0.80 per board lot*	HKSCC
	Application cancellation fee	(1)	H-Share ETF
	Extension fee	(1)	H-Share ETF
	Partial delivery request fee	(1)	H-Share ETF
	Transaction fee	(2)	H-Share ETF
In-kind Application to Redeem Units	Corporate action fee	HK\$0.80 per board lot*	HKSCC
	Application cancellation fee	(1)	H-Share ETF
	Extension fee	(1)	H-Share ETF
	Transaction fee	(2)	H-Share ETF
	Unit cancellation fee	HK\$1.00 per board lot	Conversion Agent

\* Subject to a maximum of HK\$10,000 and the tariff specified in the CCASS Operational Procedures in effect from time to time

#### Notes:

- (1) The applicable amount is up to HK\$10,000 per Participating Dealer for aggregate creation and redemption on that day.
- (2) The applicable amount is HK\$15,000 per Participating Dealer on that day. This fee includes the Conversion Agent’s fee which ranges from HK\$5,000 to HK\$12,000 per day per Participating Dealer depending on the aggregate dollar value of creation and redemption applications made on that day by that Participating Dealer, as more fully detailed below.

**Total Aggregated Value Transacted Daily****Conversion Agent's Fee**

HK\$1 to HK\$2,000,000	HK\$5,000
HK\$2,000,001 to HK\$5,000,000	HK\$8,000
HK\$5,000,001 to HK\$10,000,000	HK\$10,000
Over HK\$10,000,000	HK\$12,000

(ii) Payable by investors in respect of dealings in the Units on the SEHK

Brokerage	Market rates
SFC Transaction levy	0.004% of the price of the Units <sup>(1)</sup>
SFC Investor compensation levy	Suspended <sup>(2)</sup>
SEHK trading fee	0.005% of the price of the Units <sup>(3)</sup>
Stamp duty	0.1% of the price of the Units <sup>(4)</sup>

**Notes:**

- (1) SFC Transaction levy of 0.004% of the price of the Units is payable by each of the buyer and the seller alike.
- (2) SFC Investor compensation levy of 0.002% has been suspended by the SFC.
- (3) SEHK trading fee of 0.005% of the price of the Units is payable by each of the buyer and the seller alike.
- (4) Stamp duty of 0.1% of the price of the Units is payable by each of the buyer and the seller alike.

## Appendix 2 – Information about the H-Share Index

### Overview

The H-Share Index, launched on 8 August 1994, comprises only those H-shares that are included in the Hang Seng Composite Index (the "HSCI"), which comprises the top 200 companies in terms of market capitalisation listed on the SEHK. The H-Share Index is a benchmark of the performance of all H-shares in the HSCI. In addition, the weighting of each constituent stock in the H-Share Index is capped to ensure that no constituent stock's weighting in the H-Share Index exceeds 15%. Four types of shareholdings which are viewed as strategic in nature are excluded for the calculation of the H-Share Index, namely: (1) strategic holdings i.e. shares held by strategic shareholder(s) who individually or collectively control more than 30% of the shareholding of the relevant company; (2) directors' holdings i.e. shares held by director(s) who individually control more than 5% of the shareholding of the relevant company; (3) cross-holdings i.e. shares held by a Hong Kong-listed company which controls more than 5% of the shareholding of the relevant company as investments; and (4) lock-up shares i.e. shares held by shareholder(s) who individually or collectively represent more than 5% of the shareholding in the company and with a publicly disclosed lock-up arrangement. The H-Share Index is calculated with a base value of 2000 as of 3 January 2000. It is calculated on a 15-second basis during trading hours of the SEHK and its closing value is based on the official closing prices of the constituent stocks in the H-Share Index announced by the SEHK.

The H-Share Index is compiled and managed by HSIL, a wholly-owned subsidiary of Hang Seng Bank Limited.

The weighting of each constituent stock in the H-Share Index is determined by its freefloat-adjusted and cap-adjusted market capitalisation. The Freefloat-Adjusted Factor ("FAF"), representing the proportion of shares that is freefloated as a percentage of the issued H-shares, is rounded up to the nearest multiple of 5% for the H-Share Index calculation. A Cap Factor ("CF") is calculated in each regular half-yearly constituent change implementation, such that no constituent stock has a weighting in the H-Share Index exceeding 15%. The FAF and the CF are reviewed on a half-yearly basis.

Freefloat-adjusted market capitalisation weighting with a cap of 15% for the H-share portion of each constituent company has been adopted for the H-Share Index calculation since 6 March 2006.

$$\text{Current Index} = \frac{\sum(P_t \times IS \times \text{FAF} \times \text{CF})}{((P_{t-1} \times IS \times \text{FAF} \times \text{CF}))} \times \text{Yesterday's Closing Index}$$

### Where

P<sub>t</sub> : Current Price at Day t

P<sub>t-1</sub> : Closing Price at Day (t-1)

IS : Issued H-shares

FAF : Freefloat-Adjusted Factor, which is between 0 and 1, adjusted every six months

CF : Cap Factor, which is between 0 and 1, adjusted every six months

Before 6 March 2006, the H-Share Index was calculated using the full market capitalisation weighting methodology. More information can be obtained at website [www.hsi.com.hk](http://www.hsi.com.hk).

As at 31 July 2009, the respective weightings of the top 10 largest constituent stocks of the H-Share Index are:

Stock Code	Stock Name	Weighting (%)
939	China Construction Bank	13.50
3988	Bank of China	10.58
2628	China Life Insurance	10.24
1398	Industrial & Commercial Bank of China	10.21
857	PetroChina	7.78
3328	Bank of Communications	5.29
386	Sinopec Corp	4.68
1088	China Shenhua Energy	4.31
2318	Ping An Insurance	3.88
3968	China Merchants Bank	2.53

Real-time update of the H-Share Index can be obtained through Reuters, Bloomberg, Moneyline Telerate and the website of HSIL at: <http://www.hsi.com.hk>. Other important news relating to the H-Share Index will be available through press releases and at the HSIL website, <http://www.hsi.com.hk>. Please refer to the section headed "References to Websites" for the warning and the disclaimer regarding information contained on such website

*Please note:*

- The list of constituent stocks which comprise the H-Share Index is reviewed by HSIL on a half-yearly basis. The composition of the H-Share Index may change and its constituent companies may be substituted with other companies as determined by HSIL.
- The accuracy and completeness of the calculation of H-Share Index may be affected if there is any problem with the system for the computation and/or compilation of the H-Share Index.
- Under the terms of the licence agreement regarding the use of the H-Share Index, the Manager will indemnify HSIL and HSDS against, among other things, any loss of whatsoever nature which either of them may suffer (including in respect of any claim by any current, former or future Unitholder or investor) as a result of any act or omission of HSIL and HSDS in respect of or in connection with the trading in the H-Share ETF, use of the H-Share Index in connection with such trading, computation of the H-Share Index, or any errors, mistakes or omissions in making such computation or in collecting or using relevant information for that purpose (except in cases of their wilful misconduct, bad faith or dishonesty). The Manager will also indemnify HSIL and HSDS on a full indemnity basis for, among other things, any loss which either of them may suffer as a result of any default by the Manager or any of its duly appointed agents in the performance and observance of the provisions of the license agreement and any misuse or unauthorised use of the H-Share Index. As the Manager is entitled to be indemnified from the H-Share ETF's assets in respect of any claims made against it including those in relation to the license agreement provided that such losses are not due to the negligence, default, breach of duty or trust on the part of the Manager, this may result in a decrease in the Net Asset Value of the H-Share ETF.

*Disclaimer*

The Hang Seng China Enterprises Index (the "H-Share Index") is published and compiled by Hang Seng Indexes Company Limited pursuant to a licence from Hang Seng Data Services Limited. The mark and name "Hang Seng China Enterprises Index" is proprietary to Hang Seng Data Services Limited. Hang Seng Indexes Company Limited and Hang Seng Data Services Limited have agreed to the use of, and reference to, the H-Share Index by Hang Seng Investment Management Limited (the "Licensee") in connection with the H-Share ETF, **BUT NEITHER HANG SENG INDEXES COMPANY LIMITED NOR HANG SENG DATA SERVICES LIMITED WARRANTS OR REPRESENTS OR GUARANTEES TO ANY BROKER OR HOLDER OF THE H-SHARE ETF OR ANY OTHER PERSON (i) THE ACCURACY OR COMPLETENESS OF THE H-SHARE INDEX AND ITS COMPUTATION OR ANY INFORMATION RELATED THERETO; OR (ii) THE FITNESS OR SUITABILITY FOR ANY PURPOSE OF ANY OF THE H-SHARE INDEX OR ANY COMPONENT OR DATA COMPRISED IN IT; OR (iii) THE RESULTS WHICH MAY BE OBTAINED**

**BY ANY PERSON FROM THE USE OF ANY OF THE H-SHARE INDEX OR ANY COMPONENT OR DATA COMPRISE IN IT FOR ANY PURPOSE, AND NO WARRANTY OR REPRESENTATION OR GUARANTEE OF ANY KIND WHATSOEVER RELATING TO ANY OF THE H-SHARE INDEX IS GIVEN OR MAY BE IMPLIED.** The process and basis of computation and compilation of any of the H-ShareIndex and any of the related formula or formulae, constituent stocks and factors may at any time be changed or altered by Hang Seng Indexes Company Limited without notice. **TO THE EXTENT PERMITTED BY APPLICABLE LAW, NO RESPONSIBILITY OR LIABILITY IS ACCEPTED BY HANG SENG INDEXES COMPANY LIMITED OR HANG SENG DATA SERVICES LIMITED (i) IN RESPECT OF THE USE OF AND/OR REFERENCE TO ANY OF THE H-SHARE INDEX BY HANG SENG INVESTMENT MANAGEMENT LIMITED IN CONNECTION WITH THE H-SHARE ETF; OR (ii) FOR ANY INACCURACIES, OMISSIONS, MISTAKES OR ERRORS OF HANG SENG INDEXES COMPANY LIMITED IN THE COMPUTATION OF ANY OF THE H-SHARE INDEX; OR (iii) FOR ANY INACCURACIES, OMISSIONS, MISTAKES, ERRORS OR INCOMPLETENESS OF ANY INFORMATION USED IN CONNECTION WITH THE COMPUTATION OF ANY OF THE H-SHARE INDEX WHICH IS SUPPLIED BY ANY OTHER PERSON; OR (IV) FOR ANY ECONOMIC OR OTHER LOSS WHICH MAY BE DIRECTLY OR INDIRECTLY SUSTAINED BY ANY BROKER OR HOLDER OF THE H-SHARE ETF OR ANY OTHER PERSON DEALING WITH THE H-SHARE ETF AS A RESULT OF ANY OF THE AFORESAID, AND NO CLAIMS, ACTIONS OR LEGAL PROCEEDINGS MAY BE BROUGHT AGAINST HANG SENG INDEXES COMPANY LIMITED AND/OR HANG SENG DATA SERVICES LIMITED** in connection with the H-Share ETF in any manner whatsoever by any broker, holder or other person dealing with the H-Share ETF. Any broker, holder or other person dealing with the H-Share ETF does so therefore in full knowledge of this disclaimer and can place no reliance whatsoever on Hang Seng Indexes Company Limited and Hang Seng Data Services Limited. For the avoidance of doubt, this disclaimer does not create any contractual or quasi-contractual relationship between any broker, holder or other person and Hang Seng Indexes Company Limited and/or Hang Seng Data Services Limited and must not be construed to have created such relationship.

### **Appendix 3 – Procedures for In-kind Creation and In-kind Redemption**

***Set out below is a summary of the provisions in the Trust Deed governing the in-kind creation and redemption procedures to be followed by Participating Dealers.***

***This summary should be read in conjunction with the Trust Deed.***

#### *Procedures for Creation in Application Unit Size*

The Manager has the exclusive right to effect, for the account of the H-Share ETF, the in-kind creation of Units in exchange for the transfer, by a Participating Dealer, to or for the account of the H-Share ETF, of the H-Share Index Constituent Stocks constituting a Basket for the relevant Units and a cash amount equivalent to any duties and charges payable plus, if the Cash Component is a positive value, a cash payment equivalent to the amount of the Cash Component. If the Cash Component is a negative value, the Trustee shall be required to make a cash payment equivalent to the amount of the Cash Component (expressed as a positive figure) to the Participating Dealer. In the event that the H-Share ETF has insufficient cash required to pay any Cash Component payable by the H-Share ETF, the Manager may effect sales of the deposited property of the H-Share ETF, or may borrow moneys to provide the cash required.

The Manager has the right to reject or suspend a creation application if (i) in the opinion of the Manager, acceptance of the H-Share Index Constituent Stocks constituting a Basket would have certain adverse tax consequences for the H-Share ETF; (ii) the Manager reasonably believes that the acceptance of the H-Share Index Constituent Stocks constituting a Basket would be unlawful; (iii) the acceptance of the H-Share Index Constituent Stocks constituting a Basket would otherwise, in the opinion of the Manager, have an adverse effect on the H-Share ETF; (iv) circumstances outside the control of the Manager make it for all practicable purposes impossible to process creation applications or (v) the Manager has suspended the rights of Participating Dealers pursuant to the Trust Deed.

Once the Units are created, the Manager shall effect, for the account of the H-Share ETF, the issue of Units to a Participating Dealer in accordance with the Operating Guidelines.

Units are denominated in Hong Kong dollars (unless otherwise determined by the Manager) and no fractions of a Unit shall be created or issued by the Trustee.

An application for the creation and issue of Units shall only be made or accepted (as the case may be) on a Dealing Day, shall only be in respect of Units constituting an Application Unit size or whole multiples thereof and shall only be accepted if made by or through a Participating Dealer in accordance with the terms of a Participation Agreement.

The creation and issue of Units pursuant to a creation application shall be effected on the Dealing Day on which the creation application is received (or deemed received) and accepted in accordance with the Operating Guidelines but, for valuation purposes only, Units shall be deemed created and issued after the Valuation Point on the Dealing Day on which the relevant creation application was received or deemed received and the register of the H-Share ETF will be updated on Settlement Day or the Dealing Day immediately following Settlement Day if the settlement period is extended.

If a creation application is received on a day which is not a Dealing Day or is received after the Dealing Deadline on a Dealing Day, that creation application shall be treated as having been received at the opening of business on the next following Dealing Day, which shall be the relevant Dealing Day for the purposes of that creation application.

No Units shall be issued to any Participating Dealer unless (i) the application is in a form and substance satisfactory to, and accompanied by such documents as may be required by, the Trustee and the Manager in accordance with the Operating Guidelines, (ii) the Trustee and the Manager receive copies of the certifications required under the Participation Agreement in respect of the creation of new Units and (iii) the Trustee and the Manager receive such other certifications and opinions of counsel as each may consider necessary to ensure compliance with applicable securities laws and other laws in relation to the creation and issue of Units which are the subject of the creation application.

The Manager may charge a Transaction Fee in respect of creation applications and may on any day vary the amount of the Transaction Fee it charges (but not as between different Participating Dealers in respect of the H-Share ETF). The Transaction Fee shall be paid by or on behalf of the Participating Dealer applying for such Units (and may be set off and deducted against any Cash Component due to the Participating Dealer in respect of such creation application(s)) for the benefit of the Trust.

Any commission, remuneration or other sum payable by the Manager to any agent or other person in respect of the issue or sale of any Unit shall not be added to the Issue Price of such Unit and shall not be paid from the deposited property of the H-Share ETF.

The Trustee shall be entitled to refuse to enter (or allow to be entered) Units in the register if at any time the Trustee is of the opinion that the provisions of the Trust Deed, in regard to the issue of Units, are being infringed.

#### *Cancellation of Units*

The Trustee shall cancel Units created and issued in respect of a creation application if all the H-Share Index Constituent Stocks constituting the Basket deposited for exchange have not been vested by or on the relevant Settlement Day in the H-Share ETF or to the Trustee's satisfaction or evidence of title and instruments of transfer satisfactory to the Trustee have not been produced to or to the order of the Trustee; or the full amount of (i) the Cash Component (if applicable) and (ii) any duties and charges and Transaction Fee payable have not been received in cleared funds by or on behalf of the Trustee by such time on the Settlement Day as prescribed in the Operating Guidelines; provided that, in either event the Manager may, in its discretion, with the approval of the Trustee, extend the settlement period (either for the creation application as a whole or for a particular index share or index shares) such extension to be on such terms and conditions (including as to the payment of an Extension Fee to the H-Share ETF) as the Manager may determine.

Upon the cancellation of any Units as provided for above or if a Participating Dealer otherwise withdraws a creation application other than in the circumstances contemplated in the Trust Deed, such H-Share Index Constituent Stocks constituting the Basket deposited for exchange (or equivalent H-Share Index Constituent Stocks of the same type) as have been vested in the H-Share ETF and any cash received by or on behalf of the H-Share ETF in connection with a creation application (in either case in respect of such cancelled Units) shall be redelivered to the Participating Dealer and the relevant Units shall be deemed for all purposes never to have been created and the applicant therefore shall have no right or claim against the Manager or the Trustee in respect of such cancellation provided that:

- the Manager may charge the Participating Dealer for the account of the H-Share ETF an Application Cancellation Fee; and
- no previous valuations of the H-Share ETF shall be re-opened or invalidated as a result of the cancellation of such Units.

#### *Manager's Discretion to Accept Cash for Creation and Issue of Units*

- If the Manager determines in its discretion (following an application by a Participating Dealer) that H-Share Index Constituent Stocks are likely to be unavailable for delivery or available in sufficient quantity for delivery to the Trustee in connection with a creation application; or
- if the Manager (following an application by a Participating Dealer) is satisfied that, in connection with the issue of any Units, the Participating Dealer in question is prevented by regulation or otherwise from investing or engaging in a transaction in any H-Share Index Constituent Stock,

then the Manager shall have the right, in its discretion, to accept cash equal to the market value at the Valuation Point for the relevant Dealing Day of such H-Share Index Constituent Stocks in lieu of accepting such H-Share Index Constituent Stocks as constituting part of the relevant Basket provided that the Manager shall be entitled in its discretion to charge (for the account of the H-Share ETF) to the applicant of any Units for which cash is paid in lieu of delivering any H-Share Index Constituent Stocks such additional sum as represents the appropriate provision for duties and charges.

#### *Manager's Discretion to Accept Cash Collateral*

If the Manager determines in its discretion (following a partial delivery request by a Participating Dealer) that any H-Share Index Constituent Stocks are likely to be unavailable for delivery or available in insufficient quantity for delivery to the Trustee in connection with a creation application, then the Manager shall have the right in its discretion to accept an amount of cash determined by reference to the market value at the Valuation Point for the relevant Dealing Day of such H-Share Index Constituent Stocks as collateral for such H-Share Index Constituent Stock(s) until they are delivered.

Any such collateral will be held for the account of the H-Share ETF in a non-interest bearing account and shall be redelivered to the Participating Dealer after delivery of such H-Share Index Constituent Stocks (by 4:00 p.m. on the Dealing Day on which the delivery is made (**Delivery Date**) if such H-Share Index Constituent Stocks have been successfully debited by 2:00 p.m. on the Delivery Date or, by 2:00 p.m. on the Dealing Day immediately following the Delivery Date if such H-Share Index Constituent Stocks have been successfully debited after 2:00 p.m. on the Delivery Date) or, immediately upon demand in the circumstances described in (b) below.

The unavailable H-Share Index Constituent Stocks will be marked to market daily by the Manager by reference to their closing price on the previous trading day and if the cash collateral (a) falls below the prescribed percentage of such market value, the Manager may, in its discretion, request the Participating Dealer to provide additional cash collateral to make up the shortfall; or (b) exceeds the prescribed percentage of such market value, the Manager shall inform the Participating Dealer and shall offer to return any such excess cash collateral to the Participating Dealer.

The Manager may, subject to the provisions of the Participation Agreement, charge the Participating Dealer for the account of the H-Share ETF a Partial Delivery Request Fee.

#### *Procedures For Redemption in Application Unit Size*

The Manager has the exclusive right, at any time and from time to time following a redemption application made by a Participating Dealer in accordance with the Operating Guidelines, by notice in writing to the Trustee to effect a reduction of the H-Share ETF on the relevant Settlement Day by the order of the Trustee for the cancellation of the Units represented thereby and by requiring the Trustee to cancel the number of Units specified in such notice.

A redemption application shall only be made or accepted (as the case may be) on a Dealing Day and shall only be in respect of Units constituting an Application Unit size or whole multiples thereof and shall only be accepted if made by or through a Participating Dealer in accordance with the terms of a Participation Agreement.

If a redemption application is received on a day which is not a Dealing Day or is received after the Dealing Deadline on a Dealing Day, that redemption application shall be treated as having been received at the opening of business on the next following Dealing Day, which shall be the relevant Dealing Day for the purposes of that redemption application. For the purpose of valuation, the relevant Valuation Point shall be the Valuation Point for the Dealing Day on which the redemption application is treated as having been received.

The Manager shall, on receipt of an effective redemption application for a particular H-Share ETF from a Participating Dealer, effect the redemption of the relevant Units and shall require the Trustee to transfer to the Participating Dealer the appropriate number of H-Share Index Constituent Stocks constituting the Basket for the relevant Units plus, where the Cash Component is a positive value, a cash payment equivalent to the amount of the Cash Component. In the event that the H-Share ETF has insufficient cash required to pay any Cash Component payable by the H-Share ETF, the Manager may effect sales of the deposited property of the H-Share ETF, or borrow moneys to provide the cash required. If the Cash Component is a negative value, the Participating Dealer shall be required to make a cash payment equivalent to the amount of the Cash Component (expressed as a positive figure) to or to the order of the Trustee.

To be effective, a redemption application must:

- be given by a Participating Dealer in accordance with a Participation Agreement;
- specify the number and class of Application Units which is the subject of the redemption application; and
- include the certifications required in the Operating Guidelines in respect of redemptions of Units, together with such certifications and opinions of counsel as the Trustee and the Manager may consider necessary to ensure compliance with applicable securities laws and other laws in relation to the redemption of Units which are the subject of the redemption application.

A redemption application once given cannot be revoked or withdrawn without the consent of the Manager. The Conversion Agent may charge a Unit Cancellation Fee in connection with each accepted redemption application.

The Manager may deduct from and set off against any Cash Component payable to a Participating Dealer on the redemption of Units such sum (if any) as the Manager may consider represents the appropriate provision for duties and charges and the Transaction Fee. To the extent that the Cash Component is insufficient to pay such duties and charges and the Transaction Fee payable on such redemption the Participating Dealer shall promptly pay the shortfall

in the currency of account for the H-Share ETF to or to the order of the Trustee. The Trustee shall not be obliged to deliver (and shall have a general lien over) the H-Share Index Constituent Stocks constituting the Basket to be transferred in respect of the relevant redemption application until such shortfall and any Cash Component, Transaction Fee and Extension Fee payable by the Participating Dealer is paid in full in cleared funds to or to the order of the Trustee.

Unless specifically requested to do so by the Participating Dealer concerned, not later than one month after the relevant Dealing Day, the Trustee shall be under no obligation to check the calculation of the Redemption Price in connection with any redemption or cancellation of Units but shall be entitled at any time before the audited accounts of the H-Share ETF, covering the relevant Dealing Day, have been prepared, to require the Manager to justify its calculation of the Redemption Price.

Any H-Share Index Constituent Stocks transferable and Cash Component payable (less any amount deducted) to a Participating Dealer in respect of a redemption application may be transferred or paid sooner but shall be transferred and paid, on the Settlement Day provided that a redemption application duly signed by a Participating Dealer (to the satisfaction of the Manager and, where any amount is to be paid by telegraphic transfer to a bank account, verified in such manner as may be required by, and to the satisfaction of, the Trustee) has been received in accordance with the Operating Guidelines and the full amount of any Cash Component payable by the Participating Dealer and any duties and charges and the Transaction Fee payable have been deducted or otherwise paid in full.

On the relevant Settlement Day in relation to an effective redemption application:-

- the Units, which are the subject of the redemption application, shall be redeemed and cancelled;
- the H-Share ETF shall be reduced by the cancellation of those Units but, for valuation purposes only, such Units shall be deemed to have been redeemed and cancelled after the Valuation Point as at the Dealing Day on which the redemption application was received; and
- the name of the holder of such Units shall be removed from the register in respect of those Units on the relevant Settlement Day,

the Trustee shall transfer the H-Share Index Constituent Stocks constituting the Basket relevant to the redemption application out of the deposited property of the H-Share ETF to the Participating Dealer and shall pay any Cash Component (with such deductions as are permitted by the Trust Deed) payable by the Trustee.

No H-Share Index Constituent Stocks shall be transferred and no Cash Component shall be paid in respect of any redemption application unless the requisite documents in respect of the Units which are the subject of the redemption application have been delivered to the Manager by such time on the Settlement Day as the Trustee and the Manager shall for the time being prescribe for redemption applications generally.

In the event that such documents are not delivered to the Manager in accordance with the foregoing:

- the redemption application shall be deemed never to have been made except that the Transaction Fee in respect of such application shall remain due and payable and once paid, shall be retained by the H-Share ETF;
- the Manager may charge the Participating Dealer for the account of the H-Share ETF an Application Cancellation Fee; and
- no previous valuations of the H-Share ETF shall be re-opened or invalidated as a result of an unsuccessful redemption application.

The Manager, with approval of the Trustee, may at its discretion extend the settlement period with respect to a redemption application, such extension to be on such terms and conditions (including as to the payment of an Extension Fee to the H-Share ETF) as the Manager may determine but, in any event, not later than one month from the receipt of an effective redemption application.

The Manager may charge a Transaction Fee in respect of redemption applications and may on any day vary the amount of the Transaction Fee it charges (but not as between different Participating Dealers in respect of the H-Share ETF). The Transaction Fee shall be paid by or on behalf of the Participating Dealer submitting the redemption application(s) (and may be set off and deducted against any Cash Component due to the Participating Dealer in respect of such redemption application(s)) for the benefit of the Trustee and/or the Conversion Agent.

## Appendix 4 – Glossary

Set out below are detailed definitions of capitalised terms used in this offering document and, where appropriate, as used in the Trust Deed.

<b>Application Cancellation Fee</b>	the fee which may, at the discretion of the Manager, be charged to each Participating Dealer for the account of the H-Share ETF in respect of a cancellation (for more information, see “Cancellation of Units” in Appendix 3) of a creation application or a redemption application by a Participating Dealer, the current fee level of which is set out in Appendix 1
<b>Application Unit</b>	such number of Units of a class or whole multiples thereof as specified in this offering document or such other multiple of Units of a class from time to time determined by the Manager and approved by the Trustee
<b>Authorised Fund</b>	a Collective Investment Scheme that is authorised by the SFC pursuant to Section 104(1) of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), such authorisation does not imply official recommendation
<b>Basket</b>	a portfolio of H-Share Index Constituent Stocks based on the stock weightings in the H-Share Index on the relevant Dealing Day for the purpose of an in-kind creation or an in-kind redemption of Units
<b>Cash Component</b>	the difference between (i) the aggregate Net Asset Value of the Units comprising an Application Unit (in the case of a Participating Dealer Application) or of such other number of Units as determined by the Manager from time to time (in the case of a Special Application) and (ii) the value of the applicable Basket
<b>CCASS</b>	the Central Clearing and Settlement System established and operated by HKSCC
<b>CCASS Participant</b>	a participant in CCASS
<b>CCASS Settlement Day</b>	a settlement day as determined by HKSCC for CCASS
<b>Collective Investment Scheme</b>	has the same meaning as in the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
<b>Conversion Agent</b>	HK Conversion Agency Services Limited
<b>Dealing Day</b>	a day (other than a Saturday) on which the SEHK is open for normal trading and on which the H-Share Index is compiled and published, but excluding any day on which a number 8 typhoon signal or higher or a black rain storm warning or other similar event is in force in Hong Kong at any time after the SEHK officially opens for trading and before the SEHK officially closes for trading on that day (or such other times as may from time to time be determined by the Manager) or such other day as the Manager may from time to time determine with the approval of the Trustee
<b>Dealing Deadline</b>	the cut-off time for making creation applications or redemption applications on any particular Dealing Day is the official closing time of the SEHK on that Dealing Day (in the case of Hang Seng China H-Share Index Fund), and 15 minutes after the official closing time of the SEHK on that Dealing Day (in the case of the Participating Dealers) or such other time prior to the calculation of the Net Asset Value of the H-Share ETF on that Dealing Day as the Manager may determine and agree with the Trustee

<b>Delivery Date</b>	the Dealing Day on which previously unavailable H-Share Index Constituent Stocks are delivered to complete a partial delivery of the relevant Basket by a Participating Dealer, for more information, see “Manager’s Discretion to Accept Cash Collateral” in Appendix 3
<b>ETF</b>	an exchange traded fund
<b>Extension Fee</b>	the fee payable in connection with a request made by a Participating Dealer to extend the date on which an in-kind creation application or redemption application is to be settled which may at the discretion of the Manager, be charged to each Participating Dealer for the account of the H-Share ETF, the current fee level of which is set out in Appendix 1
<b>H-Shares</b>	shares in Mainland incorporated enterprises which are listed on the SEHK and primarily traded in Hong Kong
<b>H-Share ETF</b>	the Hang Seng H-Share Index ETF
<b>H-Share Index</b>	the Hang Seng China Enterprises Index
<b>H-Share Index Constituent Stocks</b>	the constituent stocks of the H-Share Index
<b>HKCAS</b>	HK Conversion Agency Services Limited
<b>HKSCC</b>	Hong Kong Securities Clearing Company Limited
<b>HKSCC Nominees</b>	HKSCC Nominees Limited
<b>HSCI</b>	the Hang Seng Composite Index
<b>Hang Seng China H-Share Index Fund</b>	a SFC authorised index fund (such authorisation does not imply official recommendation) in the Hang Seng Investment Series which is a unit trust established as an umbrella fund under the laws of the Cayman Islands; it is managed by the Manager and invests solely in the H-Share ETF
<b>Index Proprietor</b>	Hang Seng Data Services Limited, the owner of the mark and name of H-Share Index against which the H-Share ETF benchmarks its investments
<b>Index Provider</b>	Hang Seng Indexes Company Limited, the person responsible for managing and compiling the H-Share Index against which the H-Share ETF benchmarks its investments
<b>Index Share(s)</b>	the constituent stock(s) of a stock index
<b>Index Funds Series</b>	the Hang Seng Investment Index Funds Series
<b>Issue Price</b>	the price at which Units will be issued, as more fully described in “Calculation of Issue Price and Redemption Price”
<b>Listing Date</b>	10 December 2003, the date on which dealings in the Units commenced on the SEHK
<b>Manager</b>	Hang Seng Investment Management Limited

<b>Net Asset Value/NAV</b>	the net asset value, of the H-Share ETF or, as the context may require, of a Unit, calculated in accordance with the provisions of the Trust Deed
<b>Operating Guidelines</b>	the Operating Guidelines governing Participating Dealers
<b>Partial Delivery Request Fee</b>	the fee payable in connection with a request made by a Participating Dealer relating to a partial delivery of the relevant Basket in connection with a creation application (for more information, see “Manager’s Discretion to Accept Cash Collateral”), which may at the discretion of the Manager, be charged to each Participating Dealer for the account of the H-Share ETF, the current fee level of which is set out in Appendix 1
<b>Participation Agreement</b>	a written agreement entered into between the Trustee, the Manager, HKSCC, the Conversion Agent and a Participating Dealer setting out, (amongst other things), the arrangements in respect of Participating Dealer Applications
<b>Participating Dealer</b>	a broker or dealer who has entered into a Participation Agreement
<b>Participating Dealer Application</b>	an application by a Participating Dealer for an in-kind creation or redemption of Units through CCASS, in accordance with the procedures for creation and redemption of Units set out in the Participating Dealer Operating Guidelines
<b>PRC</b>	the People’s Republic of China
<b>Redemption Price</b>	the price at which Units will be redeemed, as more fully described in “Calculation of Issue Price and Redemption Price”
<b>Registrar</b>	HSBC Provident Fund Trustee (Hong Kong) Limited
<b>RUPV</b>	Reference Underlying Portfolio Value (or intra-day estimated NAV)
<b>Settlement Day</b>	the Dealing Day which is two CCASS Settlement Days after the relevant Dealing Day on which the creation or redemption is submitted or such other number of Dealing Days after the relevant Dealing Day as the Manager and the Trustee may from time to time agree
<b>SEHK</b>	The Stock Exchange of Hong Kong Limited
<b>SFC</b>	the Securities and Futures Commission in Hong Kong
<b>Special Application</b>	a Special Creation Application and/or a Special Redemption Application
<b>Special Creation Application</b>	an application for the creation and issue of Units by the Manager or the Manager’s nominee on behalf of the Hang Seng China H-Share Index Fund
<b>Special Redemption Application</b>	an application for the redemption of Units by the Manager or the Manager’s nominee on behalf of the Hang Seng China H-Share Index Fund
<b>Transaction Fee</b>	the fee which may, at the discretion of the Manager, be charged to each Participating Dealer for the account of the H-Share ETF (a) on each in-kind creation application and (b) on each in-kind redemption application, the current fee level of which is set out in Appendix 1

<b>Trust</b>	the unit trust constituted by the Trust Deed
<b>Trust Deed</b>	the trust deed between the Trustee, the Manager and the Index Provider dated 18 November 2003 constituting the Index Funds Series, as amended from time to time
<b>Trustee</b>	HSBC Provident Fund Trustee (Hong Kong) Limited
<b>Unit</b>	one undivided share of the H-Share ETF
<b>Unit Cancellation Fee</b>	the fee charged by the Conversion Agent in respect of the cancellation of Units in connection with an accepted redemption application, the current fee level of which is set out in Appendix 1
<b>Valuation Point</b>	the official close of trading on the SEHK or such other time or times as determined by the Manager and the Trustee from time to time provided that there shall always be a Valuation Point on each Dealing Day of the H-Share ETF other than where there is a suspension of the determination of the Net Asset Value of the H-Share ETF pursuant to the provisions in the Trust Deed

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