

Hang Seng Investment Index Funds Series III
Hang Seng FTSE/Xinhua China 25 Index ETF (Stock Code: 2838)
(the “Fund”)

Notice to Unitholders

This document is important and requires your immediate attention. If you are in doubt about the contents of this document, you should seek independent professional financial advice.

Dear Unitholders,

Amendments to the Hong Kong Offering Document of the Fund

We, as the Manager of the Fund, hereby inform you that the Hong Kong Offering Document of the Fund will be revised with effect from 13 August 2009. The “Summary of Amendments to the Hong Kong Offering Document of the Fund” is enclosed for your easy reference.

If you have any queries concerning the above, please contact us at (852) 2198 3379 during office hours.

We accept responsibility for the accuracy of the contents of this document.

Hang Seng Investment Management Limited
August 2009

Hang Seng Investment Index Funds Series III
Hang Seng FTSE/Xinhua China 25 Index ETF (Stock Code: 2838)
(the “Fund”)

Summary of Amendments to the Hong Kong Offering Document of the Fund

The Hong Kong Offering Document of the Fund will be revised with effect from 13 August 2009. A brief summary of the major amendments is set out below for your easy reference. Please also note that there are other amendments which are not set out below and Unitholders are reminded to refer to the revised Hong Kong Offering Document of the Fund for the exact details. Soft copy of the revised Hong Kong Offering Document of the Fund is available at www.hangseng.com/etf.

The Manager accepts responsibility for the information contained herein being accurate as at the date hereof.

(I) Cover page

- (a) The following textbox will be added on the top of the cover page:

IMPORTANT RISK WARNINGS / FUND INFORMATION FOR HONG KONG INVESTORS

- **Hang Seng FTSE/Xinhua China 25 Index ETF (the “HS FXI25 ETF”) is an index-tracking fund which aims to match, before expenses, as closely as practicable the performance of the FTSE/Xinhua China 25 Index (the “Index”). The HS FXI25 ETF invests primarily in the constituent stocks of the Index.**
- **The HS FXI25 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 HS FXI25 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 Index.**
- **Investment involves risks and investors may lose substantial part of their investment in the HS FXI25 ETF.**

- (b) The second paragraph in the left hand column of the cover page will be deleted in its entirety and replaced with the following:

“Units of the Hang Seng FTSE/Xinhua China 25 Index ETF are listed and can be dealt with on The Stock Exchange of Hong Kong Limited. Units of the Hang Seng FTSE/Xinhua China 25 Index ETF may also be listed on one or more other stock exchanges in the future.”

(II) Are there any Investment or other Restrictions Applicable to the HS FXI25 ETF?

The heading of the sub-section “*Securities lending restrictions*” will be changed to “*Securities lending*” and all paragraphs in this sub-section will be deleted in their entirety and replaced with the following:

“The Manager may, as provided in the Trust Deed, request the Trustee to enter into securities lending transactions for the account of the HS FXI25 ETF pursuant to which some or all of the assets of the HS FXI25 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 HS FXI25 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 HS FXI25 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 HS FXI25 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 HS FXI25 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 HS FXI25 ETF).”

(III) What are the Risks of Investing in the HS FXI25 ETF?

- (a) The first two paragraphs of this section will be deleted in their entirety and replaced with the

following:

“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 HS FXI25 ETF. Investors should not solely rely upon such information for any investment in the HS FXI25 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 HS FXI25 ETF.

Investors should carefully consider the risks involved in investing in the HS FXI25 ETF together with all other information included in this offering document and satisfy themselves that the HS FXI25 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 HS FXI25 ETF unless they fully understand and are willing to take the various risks associated with the underlying investments of the HS FXI25 ETF (which may expose the HS FXI25 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 HS FXI25 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 HS FXI25 ETF.”

- (b) The sub-section headed “*PRC*” will be deleted in its entirety and replaced with the following which will be placed at the end of this section:

“General risks of investments associated with mainland China

Political and economic considerations

The HS FXI25 ETF tracks the Index and its investments include H Shares and Red Chip Shares. They are shares of enterprises having substantial business exposure to growth opportunities in the mainland China (**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 and Red Chips Shares, the HS FXI25 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 HS FXI25 ETF to fully implement or pursue the investment objective and strategy of the HS FXI25 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 HS FXI25 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 HS FXI25 ETF".

(IV) What are the Two Offering Phases and how do they differ?

- (a) The heading of this section, the first four paragraphs under this section and the whole sub-section headed "Before Listing Period" will be deleted in their entirety.
- (b) The existing sub-section headed "After Listing Period" will become a section headed "**Purchase and Sale of Units on SEHK and Creation and Redemption of Units**", and the paragraph under the heading "*In-kind creations and in-kind redemptions*" therein will be deleted in its entirety and replaced with the following:

"Investors may apply for in-kind creation of Units based on NAV per Unit through Participating Dealers by tendering a basket (**Basket**) of FXI Constituent Stocks and a cash amount (**Cash Component**) as determined and announced by the Manager in advance. In-kind redemptions of Units 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 50,000 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 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 share market is neither increased nor decreased through an in-kind creation or redemption but investors should note that the HS FXI25 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 HS FXI25 ETF's index tracking strategy, the weightings of the FXI Constituent Stocks in the 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 HS FXI25 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.”

- (c) The paragraph under the heading “*Special creations and redemptions*” in the existing sub-section headed “After Listing Period” will be deleted in its entirety and replaced with the following:

“The Manager may also facilitate cash subscription and cash redemption and in-kind creation and in-kind redemption of Units based on NAV per Unit by the Feeder 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 Feeder Fund.

The Dealing Deadline for making a special creation application and a special redemption application by a Feeder 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 HS FXI25 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.”

(V) **The HS FXI25 ETF Management**

The second and the third paragraph in the sub-section headed “*Manager / Listing Agent*” will be deleted in their entirety and replaced with the following:

“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."

(VI) Taxes and Duties Payable by the HS FXI25 ETF

The following new sub-section will be added to the end of this section:

"Mainland China

The HS FXI25 ETF invests primarily in FXI Constituent Stocks which consist of H Shares and Red Chip Shares. By investing in H Shares and/or certain Red Chip Shares, the HS FXI25 ETF is subject to withholding income tax imposed in the PRC. The HS FXI25 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 HS FXI25 ETF in H Shares and/or certain Red Chip Shares, it is subject to withholding tax on incomes (such as dividends on such investments) derived from the PRC; and such withholding tax may reduce the income from, and/or adversely affect the performance of the HS FXI25 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/Red Chip 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 HS FXI25 ETF to the PRC tax authorities in respect of its investments in the relevant shares) from assets of the HS FXI25 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 HS FXI25 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 HS FXI25 ETF.

Any provision for taxes made by the Manager may be more than or less than the actual PRC tax liabilities of the HS FXI25 ETF. In case of a shortfall in the provision for taxes of the HS FXI25 ETF, the relevant amounts shall be debited from the assets of the HS FXI25 ETF to meet its actual PRC

tax liabilities. As a result, the income from, and/or the performance of the HS FXI25 ETF may be reduced/adversely affected and the impact/degree of impact on individual unitholders of the HS FXI25 ETF may vary, depending on factors such as the level of the provision for taxes of the HS FXI25 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 HS FXI25 ETF.”

(VII) Taxes and Duties Payable by Investors

All paragraphs in this section will be deleted in their entirety and replaced with the following:

“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 HS FXI25 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 HS FXI25 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 HS FXI25 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.”

(VIII) Appendices 1 and 2

Kindly note the following:

- (a) Updated information on the fees and charges payable by investors in the HS FXI25 ETF is also provided in Appendix 1 of the revised Hong Kong Offering Document of the Fund.
- (b) Updated information about the Index (such as the respective weightings of the constituent stocks of the Index) is also provided in Appendix 2 of the revised Hong Kong Offering Document of the Fund.

(IX) Directors of the Manager and Listing Agent

This section on the last page of the revised Hong Kong Offering Document of the Fund will be deleted in its entirety and replaced by the following:

**“DIRECTORS OF THE MANAGER
AND LISTING AGENT**

Fung Hau Chung, Andrew
Lee Pui Shan
Luk Sai Lung
Lau Chuen Chung
Ho Ka Chuen, Clement”

If you have any queries concerning the above, please contact us at (852) 2198 3379 during office hours.

We accept responsibility for the accuracy of the contents of this document.

Hang Seng Investment Management Limited
August 2009