

## Hang Seng Investment Index Funds Series II

### Hang Seng Index ETF (Stock Code: 2833) (the "Fund")

Investors should note that all investments involve risks (including the possibility of loss of the capital invested), prices of fund units may go up as well as down and past performance is not indicative of future performance. Investors should read the relevant fund's offering documents (including the full text of the risk factors stated therein) in detail before making any investment decision.

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SFC authorisation is not a recommendation or endorsement of a scheme nor does it guarantee the commercial merits of a scheme or its performance. It does not mean the scheme is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.

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

The following amendments will be made to the Hong Kong Offering Document of the Fund with effect from 4 September 2015. These amendments form part of and should be read in conjunction with the Hong Kong Offering Document of the Fund.

1. Change of Website Address

All references to "[www.hangseng.com/etf](http://www.hangseng.com/etf)" in the Hong Kong Offering Document of the Fund will be deleted in their entirety and replaced by "[www.hangsenginvestment.com](http://www.hangsenginvestment.com)".

2. Updated Index Information

#### Appendix 2 – Information about the Hang Seng Index (the "Index")

As at 21 August 2015:

- The respective weightings of the four sectors of stocks comprising the Index were:

Sector of constituent stocks	Weighting (%)
Finance	46.35
Commerce and Industry	38.52
Properties	10.37
Utilities	4.76

- The respective weightings of the top 10 largest constituent stocks of the Index were:

Stock Code	Stock Name	Weighting (%)
5	HSBC Holdings plc	11.90
700	Tencent Holdings Ltd.	9.85
941	China Mobile Ltd.	8.20
1299	AIA Group Ltd.	6.98
939	China Construction Bank Corporation – H Share	6.49
1398	Industrial and Commercial Bank of China Ltd. – H Share	4.84
3988	Bank of China Ltd. – H Share	4.09
1	CK Hutchison Holdings Ltd.	3.69
388	Hong Kong Exchanges and Clearing Ltd.	2.83
2318	Ping An Insurance (Group) Co. of China Ltd. – H Share	2.69

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

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

**Hang Seng Investment Index Funds Series II**

**Hang Seng Index ETF (Stock Code: 2833)  
(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.**

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Dear Unitholders,

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

We, as the Manager of the Fund, are writing to inform you that according to the newly enacted Stamp Duty (Amendment) Ordinance 2015, Hong Kong stamp duty will be waived for the transfer of shares or units of all exchange traded funds with effect from 13 February 2015. The Hong Kong Offering Document of the Fund will be amended accordingly. Please refer to the "Amendments to the Hong Kong Offering Document of the Fund" enclosed. The updated Product Key Facts Statement of the Fund is also available at [www.hangseng.com/etf](http://www.hangseng.com/etf) from the date of this document.

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

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

Hang Seng Investment Management Limited  
13 February 2015

## Hang Seng Investment Index Funds Series II

### Hang Seng Index ETF (Stock Code: 2833) (the "Fund")

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

The following amendments will be made to the Hong Kong Offering Document of the Fund with effect from 13 February 2015. These amendments form part of and should be read in conjunction with the Hong Kong Offering Document of the Fund.

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

Paragraph under this section will be deleted in its entirety and replaced by the following:

"Investors are required to pay brokerage fees, transaction levies and SEHK trading fees 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."

#### 2. Taxes and Duties Payable by Investors

Under the section "Hong Kong", the second and third paragraph in sub-section "Stamp Duty" will be deleted in its entirety and replaced by the following:

"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 or on the sale and purchase of Units by him or her in the secondary market."

#### 3. Appendix 1 - Current Fees and Charges

##### (2) Fees and Charges payable by investors in the HSI ETF

Paragraph (ii) under section (2) in Appendix 1 will be deleted in its entirety and replaced by the following:

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

Brokerage	Market rates
SFC Transaction levy	0.0027% <sup>(1)</sup>
SEHK Trading fee	0.005% <sup>(2)</sup>
Stamp duty	Nil

Notes:

(1) SFC transaction levy of 0.0027% of the price of the Units is payable by each of the buyer and the seller alike.

(2) SEHK trading fee of 0.005% of the price of the Units is payable by each of the buyer and the seller alike."

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

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

Hang Seng Investment Management Limited  
13 February 2015

**Hang Seng Investment Index Funds Series II**

**Hang Seng Index ETF (Stock Code: 2833)  
(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.**

Capitalized terms used herein but not otherwise defined will have the same meanings as defined in the Hong Kong Offering Document of the Fund.

**Investors should note that all investment involves risks (including the possibility of loss of the capital invested), prices of fund units may go up as well as down and past performance is not indicative of future performance. Investors should read the relevant fund's offering documents (including the full text of the risk factors stated therein) in detail before making any investment decision.**

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Dear Unitholders,

**Amendment to the Hong Kong Offering Document of the Fund**

We, as the Manager of the Fund, are writing to inform you that the Hong Kong Offering Document of the Fund will be revised with effect from 28 January 2015. The amendment is in respect of the disclosure regarding selling and holding restrictions on US Person. For details of the amendment, please refer to the "Amendment to the Hong Kong Offering Document of the Fund" enclosed.

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

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

Hang Seng Investment Management Limited  
28 January 2015

## Hang Seng Investment Index Funds Series II

### Hang Seng Index ETF (Stock Code: 2833) (the "Fund")

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#### Amendment to the Hong Kong Offering Document of the Fund

The following amendment will be made to the Hong Kong Offering Document of the Fund with effect from 28 January 2015. This amendment forms part of and should be read in conjunction with the Hong Kong Offering Document of the Fund.

##### (1) Selling and Holding Restrictions

In the third paragraph of this section, the first sentence in the second paragraph of point (A) will be deleted in its entirety and replaced by the following:

"Units may not be offered or sold to, transferred to or acquired by any "U.S. Person" (a "US Person") and may not be directly or indirectly offered or sold in the U.S. or for the benefit of a US Person."

##### (2) Updated Index Information

###### Appendix 2 – Information about the Hang Seng Index (the "Index")

As at 26 January 2015:

- The respective weightings of the four sectors of stocks comprising the Index were:

Sector of constituent stocks	Weighting (%)
Finance	46.16
Commerce and Industry	37.88
Properties	11.20
Utilities	4.76

- The respective weightings of the top 10 largest constituent stocks of the Index were:

Stock Code	Stock Name	Weighting (%)
5	HSBC Holdings plc	11.64
700	Tencent Holdings Ltd.	9.30
941	China Mobile Ltd.	7.67
1299	AIA Group Ltd.	6.61
939	China Construction Bank Corporation – H Share	6.54
1398	Industrial and Commercial Bank of China Ltd. – H Share	5.20
3988	Bank of China Ltd. – H Share	4.35
2628	China Life Insurance Co. Ltd. – H Share	2.93
2318	Ping An Insurance (Group) Co. of China Ltd. – H Share	2.76
13	Hutchison Whampoa Ltd.	2.61

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

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

Hang Seng Investment Management Limited  
28 January 2015

**Hang Seng Investment Index Funds Series II**

**Hang Seng Index ETF (Stock Code: 2833)  
(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.**

**Investors should note that all investment involves risks (including the possibility of loss of the capital invested), prices of fund units may go up as well as down and past performance is not indicative of future performance. Investors should read the relevant fund's offering documents (including the full text of the risk factors stated therein) in detail before making any investment decision.**

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Dear Unitholders,

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

By the Notice to Unitholders dated 7 November 2014, we, as the Manager of the Fund, had informed you that the Hong Kong Offering Document of the Fund will need to be amended (i) to allow investments in Real Estate Investment Trusts ("REITs") so that the Fund can continue to track the constituents in the Hang Seng Index (the "Index") if REITs are selected as constituents in the Index and (ii) to replace references to "Index Share(s)" with "Index Security(ies)".

The Hong Kong Offering Document of the Fund will be updated accordingly. Please refer to the "Amendments to the Hong Kong Offering Document of the Fund" enclosed. The updated Product Key Facts Statement of the Fund is also available at [www.hangseng.com/etf](http://www.hangseng.com/etf) from the date of this document.

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

We accept full responsibility for the accuracy of the contents of this document and confirm, having made all reasonable enquiries, that to the best of our knowledge and belief there are no other facts the omission of which would make any statement misleading.

Hang Seng Investment Management Limited  
5 December 2014

## Hang Seng Investment Index Funds Series II

### Hang Seng Index ETF (Stock Code: 2833) (the "Fund")

Investors should note that all investment involves risks (including the possibility of loss of the capital invested), prices of fund units may go up as well as down and past performance is not indicative of future performance. Investors should read the relevant fund's offering documents (including the full text of the risk factors stated therein) in detail before making any investment decision.

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

The following amendments will be made to the Hong Kong Offering Document of the Fund with effect from 8 December 2014. These amendments form part of and should be read in conjunction with the Hong Kong Offering Document of the Fund.

#### (1) REITs

Point (10)(b) under the sub-section headed "Investment restrictions" under the section headed "Are there any Investment or other Restrictions Applicable to the HSI ETF?" will be deleted in its entirety and replaced by the following:

"(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 and interests in real estate investment trusts);"

#### (2) Index securities

All references to "Index Shares", "Index Share" and "Index Share(s)" in the Hong Kong Offering Document of the Fund will be replaced by "Index Security", "Index Securities" and "Index Security(ies)" respectively.

#### (3) Updated Index Information

##### Appendix 2 – Information about the Hang Seng Index (the "Index")

As at 14 November 2014:

- The respective weightings of the four sectors of stocks comprising the Index were:

Sector of constituent stocks	Weighting (%)
Finance	45.43
Commerce and Industry	40.13
Properties	9.43
Utilities	5.01

- The respective weightings of the top 10 largest constituent stocks of the Index were:

Stock Code	Stock Name	Weighting (%)
5	HSBC Holdings plc	13.46
700	Tencent Holdings Ltd.	9.41
941	China Mobile Ltd.	7.49
1299	AIA Group Ltd.	6.89
939	China Construction Bank Corporation – H Shares	6.19
1398	Industrial and Commercial Bank of China Ltd. – H Shares	4.80
3988	Bank of China Ltd. – H Shares	3.89
13	Hutchison Whampoa Ltd.	2.69
883	CNOOC Ltd.	2.64
388	Hong Kong Exchanges and Clearing Ltd.	2.63

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

We accept full responsibility for the accuracy of the contents of this document and confirm, having made all reasonable enquiries, that to the best of our knowledge and belief there are no other facts the omission of which would make any statement misleading.



## Hang Seng Investment Index Funds Series II

### Hang Seng Index ETF (Stock Code: 2833) (the "Fund")

Investors should note that all investment involves risks (including the possibility of loss of the capital invested), prices of fund units may go up as well as down and past performance is not indicative of future performance. Investors should read the relevant fund's offering documents (including the full text of the risk factors stated therein) in detail before making any investment decision.

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#### Amendment to the Hong Kong Offering Document of the Fund

The following amendment will be made to the Hong Kong Offering Document of the Fund with effect from the date of this document. This amendment forms part of and should be read in conjunction with the Hong Kong Offering Document of the Fund.

#### What are the Risks of Investing in the HSI ETF?

In the sub-section headed "*Trading and Listing Issues*" under this section, the following new paragraph will be inserted immediately after the third paragraph:

"It is possible that Units of the HSI ETF are still listed on the stock exchange on which they are primarily listed (i.e. the SEHK) whilst they are no longer listed or dealt with on other stock exchange(s). The Manager may apply for withdrawal of listing on such other stock exchange(s) in accordance with the relevant provisions of the Trust Deed, whilst maintaining the listing status on the SEHK. In such case, the prior approval from the relevant stock exchange(s) and regulatory authority(ies) shall be sought and notification of the delisting arrangement (the details of which shall be available at the authorised agent(s) in such jurisdiction(s)) will be sent to the relevant investors. Please note that Units which are listed on such other stock exchange(s) but are not redeemed as of the "de-list day" may be sold with the proceeds, after deducting the necessary transaction costs and currency conversion (if applicable), paid to the relevant investors in compliance with the requirements under all applicable laws and regulations (if any). Such net amount may be higher or lower than the amount of the capital invested, thus such investors may suffer losses."

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

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

Hang Seng Investment Management Limited

11 November 2014

## Hang Seng Investment Index Funds Series II

### Hang Seng Index ETF (Stock Code: 2833) (the “Fund”)

Investors should note that all investment involves risks (including the possibility of loss of the capital invested), prices of fund units may go up as well as down and past performance is not indicative of future performance. Investors should read the relevant fund’s offering documents (including the full text of the risk factors stated therein) in detail before making any investment decision.

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#### Amendment to the Hong Kong Offering Document of the Fund

The following amendment will be made to the Hong Kong Offering Document of the Fund with effect from 1 November 2014. This amendment form part of and should be read in conjunction with the Hong Kong Offering Document of the Fund.

#### 1. Appendix 1 - Current Fees and Charges

##### (2) Fees and Charges payable by investors in the HSI ETF

Paragraph (ii) under this section (2) in Appendix 1 will be deleted in its entirety and replaced by the following:

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

Brokerage	Market rates
SFC transaction levy	0.0027% <sup>(1)</sup>
SFC Investor compensation levy	Suspended <sup>(2)</sup>
SEHK trading fee	0.005% <sup>(3)</sup>
Stamp duty	0.1% <sup>(4)</sup>

Notes:

(1) The SFC transaction levy of 0.0027% of the trading price of the Units is payable by each of the buyer and the seller.

(2) The SFC investor compensation levy of 0.002% has been suspended by the SFC.

(3) The SEHK trading fee of 0.005% of the trading price of the Units is payable by each of the buyer and the seller.

(4) Stamp duty of 0.1% of the trading price of the Units is payable by each of the buyer and the seller.”

#### 2. Updated Index Information

##### Appendix 2 – Information about the Hang Seng Index (the “Index”)

As at 27 October 2014:

- The respective weightings of the four sectors of stocks comprising the Index were:

<b>Sector of constituent stocks</b>	<b>Weighting (%)</b>
Finance	45.52
Commerce and Industry	39.92
Properties	9.57
Utilities	5.00

- The respective weightings of the top 10 largest constituent stocks of the Index were:

<b>Stock Code</b>	<b>Stock Name</b>	<b>Weighting (%)</b>
5	HSBC Holdings plc	14.09
700	Tencent Holdings Ltd.	8.77
941	China Mobile Ltd.	7.18
1299	AIA Group Ltd.	6.70
939	China Construction Bank Corporation – H Shares	6.19
1398	Industrial and Commercial Bank of China Ltd. – H Shares	4.84
3988	Bank of China Ltd. – H Shares	3.77
883	CNOOC Ltd.	2.91
13	Hutchison Whampoa Ltd.	2.73
857	PetroChina Co. Ltd. – H Shares	2.64

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

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

Hang Seng Investment Management Limited

31 October 2014

## Hang Seng Investment Index Funds Series II

### Hang Seng Index ETF (Stock Code: 2833)

(the "Fund")

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

The following amendments will be made to the Hong Kong Offering Document of the Fund with effect from 8 September 2014. These amendments form part of and should be read in conjunction with the Hong Kong Offering Document of the Fund.

##### 1. Appendix 2 – Information about the Hang Seng Index

The seventh paragraph of Appendix 2 will be deleted in its entirety and replaced by the following:

A freefloat-adjusted market capitalization weighted methodology is adopted for the calculation of the Index. The cap on each constituent weighting will be lowered from 15% to 10% which will be phased in over a period of 12 months from September 2014 to September 2015 through five rounds of index rebalancing. Details of the rebalancing schedule are set out below:

After Market Close on	Capping Level
5 Sep 2014 (Fri)	14%
5 Dec 2014 (Fri)	13%
6 Mar 2015 (Fri)	12%
5 Jun 2015 (Fri)	11%
4 Sep 2015 (Fri)	10%

##### 2. Updated Index Information

Appendix 2 – Information about the Hang Seng Index (the "Index")

As at 19 August 2014:

- The respective weightings of the four sectors of stocks comprising the Index were:

Sector of constituent stocks	Weighting (%)
Finance	44.72
Commerce and Industry	41.04
Properties	9.55
Utilities	4.69

- The respective weightings of the top 10 largest constituent stocks of the Index were:

Stock Code	Stock Name	Weighting (%)
5	HSBC Holdings plc	14.29
700	Tencent Holdings Ltd.	8.87
941	China Mobile Ltd.	7.10
1299	AIA Group Ltd.	6.32

939	China Construction Bank Corporation – H Shares	6.04
1398	Industrial and Commercial Bank of China Ltd. – H Shares	4.72
3988	Bank of China Ltd. – H Shares	3.57
883	CNOOC Ltd.	3.36
857	PetroChina Co. Ltd. – H Shares	2.80
13	Hutchison Whampoa Ltd.	2.73

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

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

Hang Seng Investment Management Limited  
5 September 2014

## Hang Seng Investment Index Funds Series II

### Hang Seng Index ETF (Stock Code: 2833) (the "Fund")

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

The following amendments will be made to the Hong Kong Offering Document of the Fund with effect from 13 June 2014. These amendments form part of and should be read in conjunction with the Hong Kong Offering Document of the Fund.

#### 1. Selling and Holding Restrictions

The third to seventh paragraphs under this section will be deleted in their entirety and replaced by the following:

"In particular:-

- (A) Units have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") or under the securities laws of any state and Units have not been and will not be registered under the Investment Company Act of 1940, as amended (the "Investment Company Act").

Units may not be offered or sold to any "U.S. Person" (a "US Person"). For the purposes of this restriction, the term US Person shall mean the following:

1. An individual who is deemed a resident of the U.S. under any U.S. law or regulation
2. An entity:
  - i. that is a corporation, partnership, limited liability company or other business entity:
    - a. that was created or organized under U.S. federal or state law including any non-U.S. agency or branch of such entity; or
    - b. where regardless of place of formation or organization, was organized principally for passive investment (such as an investment company or fund or similar entity other than an employee benefit plan or employee pension scheme for the employees, officers, or principals of a non-U.S. entity having its principal place of business outside the United States);

- and owned directly or indirectly by one or more US Persons, with respect to which such US Persons (unless defined as a Qualified Eligible Person under CFTC Regulation 4.7(a)) directly or indirectly hold in the aggregate 10% or greater beneficial interest; or
  - where a US Person is the general partner, managing member, managing director or other position with authority for directing the entity's activities; or
  - was formed by or for a US Person principally for the purpose of investing in securities not registered with the Securities and Exchange Commission ("SEC"); or
  - where more than 50% of its voting ownership interests or non-voting ownership interests are directly or indirectly owned by US Persons; or
- c. that is any agency or branch of a non-U.S. entity located in the U.S.; or
  - d. has its principal place of business in the U.S.; or
- ii. that is a trust created or organized under U.S. federal or state law or regardless of the place of creation or organization:
    - a. where one or more US Persons has the authority to control all substantial decisions of the trust; or
    - b. where the administration of the trust or its formation documents are subject to the supervision of one or more U.S. courts; or
    - c. where any settlor, founder, trustee, or other person responsible for decisions related to the trust is a US Person; or
  - iii. that is an estate of a deceased person regardless of where the person resided while alive where an executor or administrator is a US Person.
3. An employee benefit plan established and administered in accordance with the laws of the U.S.
  4. A discretionary or non-discretionary investment account or similar account (other than an estate or trust) held by a non-U.S. or U.S. dealer or other fiduciary for the benefit or account of a US Person (as defined above).

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.

For the purpose of this definition, the "United States" and "U.S." means the United States of America (including the States and the District of Columbia), its territories, possessions and other areas of subject to its jurisdiction.

If, subsequent to a unitholder's investment in the HSI ETF, the unitholder becomes a US Person, such unitholder (i) will be restricted from making any additional investments in the HSI ETF and (ii) as soon as practicable have its Units compulsorily redeemed by the HSI ETF (subject to the requirements of applicable law).

The Manager may, from time to time, waive or modify the above restrictions subject to the provisions of the Trust Deed.

- (B) Units will not be offered for sale in Canada. In addition, no offer or invitation to subscribe for Units may be made to, and no Units may be held by or transferred to Canadian residents or for the benefit of any Canadian resident. A distribution or solicitation may be deemed to occur in Canada where a distribution or solicitation is made to a person (including an individual, corporation, trust, partnership or other entity, or other legal person) resident or otherwise located in Canada at the applicable time. For these purposes, the following persons will generally be considered to be a Canadian resident:

1. An individual, if
  - i. the individual's primary principal residence is located in Canada; or
  - ii. the individual is physically located in Canada at the time of the offer, sale or other relevant activity.
2. A corporation, if
  - i. the corporation's head office or principal office is located in Canada; or
  - ii. securities of the corporation that entitle the holder to elect a majority of the directors are held by Canadian Resident individuals (as described above) or by legal persons resident or otherwise located in Canada; or
  - iii. the individuals that make investment decisions or provide instructions on behalf of the corporation are Canadian Resident individuals (as described above).
3. A trust, if
  - i. the principal office of the trust (if any) is located in Canada; or
  - ii. the trustee (or in the case of multiple trustees, the majority of trustees) are Canadian Resident individuals (as described above) or are legal persons resident or otherwise located in Canada; or
  - iii. the individuals that make investment decisions or provide instructions on behalf of the trust are Canadian Resident individuals (as described above).
4. A partnership, if
  - i. the partnership's head office or principal office (if any) is located in Canada; or
  - ii. the holders of the majority of the interests of or in the partnership are held by Canadian Residents (as described above); or
  - iii. the general partner (if any) is a Canadian Resident (as described above); or
  - iv. the individuals that make investment decisions or provide instructions on behalf of the partnership are Canadian Resident individuals (as described above).

In addition and without prejudice to the above, 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 HSI 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 HSI 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."

## 2. FATCA

The following new section will be inserted immediately before the section headed "Trust Deed and Participation Agreements":

### **"The United States of America - Foreign Account Tax Compliance Act (FATCA)**

Sections 1471 through 1474 of the U.S. Internal Revenue Code ("FATCA") impose a 30% withholding tax on certain payments to a foreign financial institution ("FFI") if that FFI is not compliant with FATCA. The HSI ETF is a FFI and thus, subject to FATCA.

Beginning 1 July 2014, this withholding tax applies to payments to the HSI ETF that constitute interest, dividends and other types of income from U.S. sources (such as dividends paid by a U.S. corporation) and beginning on 1 January 2017, this withholding tax is extended to the proceeds received from the sale or disposition of assets that give rise to U.S. source dividend or interest payments.



These FATCA withholding taxes may be imposed on payments to the HSI ETF unless (i) the HSI ETF becomes FATCA compliant pursuant to the provisions of FATCA and the relevant regulations, notices and announcements issued thereunder, or (ii) the HSI ETF is subject to an appropriate Intergovernmental Agreement to improve international tax compliance and to implement FATCA (“IGA”). The HSI ETF intends to comply with FATCA in good time to ensure that none of its income is subject to FATCA withholding.

Hong Kong has reached an agreement in principle with the U.S. with respect to an IGA, although the terms have not yet been finalised. The HSI ETF intends to take any measures that may be required to ensure compliance under the terms of the IGA and local implementing regulations.

In order to comply with its FATCA obligations, the HSI ETF will be required to obtain certain information from its unitholders so as to ascertain their U.S. tax status, including the appropriate IRS withholding statement on Form W-8 or W-9. If the unitholder is a specified U.S. person, U.S. owned non-U.S. entity, non-participating FFI (“NPFFI”) or does not provide the requisite documentation, the HSI ETF may need to report information on these unitholders to the appropriate tax authority, as far as legally permitted.

If a unitholder either fails to provide the HSI ETF, its agents or authorised representatives with any correct, complete and accurate information that may be required for the HSI ETF to comply with FATCA or is a NPFFI, to the extent that it is required to comply with the terms of the IGA, the unitholder may be subject to withholding on amounts otherwise distributable to the unitholder, may be compelled to sell its interest in the HSI ETF or, in certain situations, the unitholder’s interest in the HSI ETF may be sold involuntarily (provided that the Manager or the Trustee shall observe relevant legal requirements and shall act in good faith and on reasonable grounds). The HSI ETF may at its discretion enter into any supplemental agreement without the consent of unitholders to provide for any measures that the HSI ETF deem appropriate or necessary to comply with FATCA.

Other countries are in the process of adopting tax legislation concerning the reporting of information. The HSI ETF also intends to comply with such other similar tax legislation that may apply to the HSI ETF, although the exact parameters of such requirements are not yet fully known. As a result, the HSI ETF may need to seek information about the tax status of unitholders under such other country’s laws and each unitholder for disclosure to the relevant governmental authority.

**The disclosure in this section is based on advice received by the HSI ETF regarding the law and practice in force in the U.S. as at 31 May 2014. Unitholders/Investors should consult their own tax advisors regarding the FATCA requirements with respect to their own situation. In particular, investors who invest in the HSI ETF through intermediaries should confirm the FATCA compliance status of those intermediaries to ensure that they do not suffer FATCA withholding tax on their investment returns.**

**Although the HSI ETF will attempt to satisfy any obligations imposed on it to avoid the imposition of the FATCA withholding tax, no assurance can be given that the HSI ETF will be able to satisfy these obligations. If the HSI ETF become subject to a withholding tax as a result of the FATCA regime, the value of the Units held by unitholders may suffer material losses.”**

### **3. Updated Index Information**

Appendix 2 – Information about the Hang Seng Index (the “Index”)

As at 16 May 2014:

- The respective weightings of the four sectors of stocks comprising the Index were:

<b>Sector of constituent stocks</b>	<b>Weighting (%)</b>
Finance	45.26
Commerce and Industry	40.38
Properties	9.49
Utilities	4.87

- The respective weightings of the top 10 largest constituent stocks of the Index were:

<b>Stock Code</b>	<b>Stock Name</b>	<b>Weighting (%)</b>
5	HSBC Holdings plc	14.92
2988	Tencent Holdings Ltd.	8.10
939	China Construction Bank Corporation – H Shares	6.31
941	China Mobile Ltd.	6.28
1299	AIA Group Ltd.	6.27
1398	Industrial and Commercial Bank of China Ltd. – H Shares	4.56
3988	Bank of China Ltd. – H Shares	3.80
883	CNOOC Ltd.	3.23
13	Hutchison Whampoa Ltd.	2.98
857	PetroChina Co. Ltd. – H Shares	2.65

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

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

Hang Seng Investment Management Limited

13 June 2014

# Hang Seng Index ETF

(stock code: 2833)

## Hong Kong Offering Document

**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 Index ETF (the “**HSI ETF**”) are listed and can be dealt with on The Stock Exchange of Hong Kong Limited and Taiwan Stock Exchange. Units of the HSI ETF may also be listed on other stock exchanges in the future.

The Stock Exchange of Hong Kong Limited, the Securities and Futures Commission in Hong Kong (the “**SFC**”) and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this document (including the Product Key Facts Statement for the HSI ETF), 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 HSI ETF has been authorised as a collective investment scheme by the SFC. SFC authorisation is not a recommendation or endorsement of the HSI ETF nor does it guarantee the commercial merits of the HSI ETF or its performance. It does not mean the HSI ETF is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.

**Hang Seng Investment Management Limited**

**25 July 2013**

## Selling and Holding Restrictions

Permission for the offering of any units (**Units**) of the **HSI ETF** in Hong Kong and Taiwan and the distribution of this offering document (including the Product Key Facts Statement for the HSI ETF) in Hong Kong has been obtained. Units may also be listed on other stock exchanges in the future. For the authorisation/listing status of the HSI 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 HSI 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 HSI 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 HSI 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 HSI 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.

## Enquiries and Complaints to the Manager

All investors' enquiries and complaints directed to the Manager should be made in writing and sent to the following address:

Hang Seng Investment Management Limited  
83 Des Voeux Road Central  
Hong Kong

The Manager will respond to investors' enquiries or complaints in writing as soon as practicable.

# CONTENTS

Summary.....	1
Is an investment in the HSI ETF suitable for me?.....	2
What is the Investment Objective of the HSI ETF? .....	2
What Investment Strategy will be used by the HSI ETF? .....	2
Are there any Investment or other Restrictions Applicable to the HSI ETF?.....	3
What are the Risks of Investing in the HSI ETF? .....	6
Purchase and Sale of Units on SEHK and Creation and Redemption of Units.....	11
Certificates .....	13
Summary of Different Trading Methods of Units and Related Fees.....	14
Determination of Net Asset Value .....	14
Suspension of the Determination of Net Asset Value and the Right to Redeem Units	14
Suspension of Dealings in Units on the SEHK .....	15
Calculation of Issue Price and Redemption Price .....	15
Market Price.....	15
Fees and Expenses Payable by the HSI ETF.....	16
Fees and Charges Payable by Investors for Dealing in the Units on the SEHK .....	16
Dividend Policy .....	16
Reporting to Investors.....	16
HSI ETF Management .....	18
Conflicts of Interest that may apply to the HSI ETF.....	19
Taxes and Duties Payable by the HSI ETF .....	20
Taxes and Duties Payable by Investors.....	21
Trust Deed and Participation Agreements .....	22
Supply and Inspection of Documents.....	22
General Information.....	22
Termination of the HSI ETF .....	23
References to Websites .....	23
Appendix 1 – Current Fees and Charges.....	24
Appendix 2 – Information about the Hang Seng Index.....	26
Appendix 3 – Procedures for In-kind Creation and In-kind Redemption.....	29
Appendix 4 – Glossary .....	34

## Summary

Set out below is a summary of the HSI 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 HSI ETF?”.**

### Key Information in respect of the HSI ETF

<b>Instrument Type</b>	Exchange Traded Fund
<b>Tracked Index</b>	Hang Seng Index
<b>Listing Date</b>	21 September 2004
<b>Exchange Listing in Hong Kong</b>	The Stock Exchange of Hong Kong Limited ( <b>SEHK</b> ) – Main Board
<b>Stock Code</b>	2833
<b>Trading Board Lot Size</b>	100 Units
<b>Trading Currency</b>	Hong Kong dollars
<b>Dividend Payout</b>	Semi-annually (if any)
<b>Market price per Unit in Proportion to the Index</b>	Approximately 1/100 <sup>1</sup>
<b>In-kind Creation/ Redemption (via Participating Dealers only)</b>	Minimum 50,000 Units (or multiples thereof)
<b>Estimated Total Expense Ratio<sup>2</sup></b>	0.13% per annum
<b>Manager</b>	Hang Seng Investment Management Limited
<b>Trustee</b>	AIA Company (Trustee) Limited
<b>Registrar</b>	HSBC Provident Fund Trustee (Hong Kong) Limited
<b>Website</b>	<a href="http://www.hangseng.com/etf">www.hangseng.com/etf</a>

### What is the HSI ETF?

The HSI ETF is part of the Hang Seng Investment Index Funds Series II (**Index Funds Series II**), a unit trust established on 10 September 2004 as an umbrella fund under the laws of Hong Kong to facilitate the establishment of various index-tracking funds including exchange traded funds. The HSI ETF is the first sub-fund of the Index Funds Series II.

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

The Index is one of the earliest stock market indexes in Hong Kong and currently comprises of 50 constituent stocks which are representative of the Hong Kong stock market. The Index includes the largest and most liquid stocks listed on the Main Board of the SEHK.

### Trading of Units

Units in the HSI 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 100 Units (or multiples thereof); and/or
- (2) apply for in-kind creation and redemption through authorised participants (**Participating Dealers**) in a minimum number of 50,000 Units (or multiples thereof).

For the Feeder Fund, special creations and redemptions for the Units (both in cash and in-kind) through the Manager are available.

<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.

<sup>2</sup> “Total Expense Ratio” is the ratio of total expenses of the HSI ETF to its Net Asset Value. Data as of 31 December 2012.

### **Is an investment in the HSI ETF suitable for me?**

The answer really depends on an assessment of your own circumstances. You should satisfy yourself that the HSI 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 HSI ETF. Please note that the decision whether or not to invest remains with you. If you have any doubt as to whether or not the HSI ETF is suitable for you, you should obtain independent professional advice.

By way of background, the HSI ETF has been established for investors seeking a relatively inexpensive and passive means of investing in a portfolio of shares which are representative of the Hong Kong stock market. In tracking the Index, the HSI ETF will be investing in companies which are listed on the SEHK and the shares of which generally have high market value and liquidity.

You should carefully consider the risks involved in investing in the HSI 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 HSI 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 HSI ETF?**

The HSI ETF is an index-tracking fund tracking the performance of the 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 HSI ETF seeks to provide investment returns that match as closely as practicable the performance of the Index. For more information about the Index and its constituent stocks (**HSI Constituent Stocks**), please see Appendix 2 "Information about the Hang Seng Index".

### **What Investment Strategy will be used by the HSI 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 Will Be Used for the HSI ETF?*

The Manager will primarily adopt a replication strategy.

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

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

Stock's weight in the 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 an HSI Constituent Stock in the 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 HSI ETF's reports and accounts whether the above limits have been complied in full.

### **Are there any Investment or other Restrictions Applicable to the HSI ETF?**

Yes. The HSI ETF is a collective investment scheme authorised by the 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**), SFC authorisation is not a recommendation or endorsement of the HSI ETF nor does it guarantee the commercial merits of the HSI ETF or its performance. It does not mean the HSI ETF is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors. The SFC has the right to withdraw such authorisation of the HSI ETF if it no longer considers the Index is acceptable. In addition, as an Authorised Fund, the HSI 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 HSI 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 HSI Constituent Stock that each accounts for more than 10% of the weighting of the HSI Constituent Stock; and the HSI ETF's holding of any such HSI Constituent Stock does not exceed its weightings in the Index (except where such weighting is exceeded as a result of changes in the composition of the Index and the excess is only transitional and temporary in nature); or
  - (ii) the HSI 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 HSI Constituent Stock held by the HSI ETF over its weighting in the Index is caused by the implementation of the representative sampling strategy;
    - (C) any excess in weighting of the HSI Constituent Stock over its weighting in the 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 HSI Constituent Stock, its weighting and the investment objective of the Index and any other suitable factors (the maximum limits applicable to the HSI ETF are disclosed above under the sub-section headed "What Strategy Will Be Used for the HSI ETF?");
    - (D) the limits laid down by the HSI 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 HSI ETF's semi-annual and annual financial reports whether the limits in paragraph (C) have been complied with in full.
- (2) The HSI ETF may not hold more than 10% of any ordinary shares issued by any single issuer.
- (3) The HSI ETF may not invest in securities of any company not listed or quoted on a recognised securities market.
- (4) Not more than 30% of the NAV of the HSI 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 HSI Constituent Stocks that each accounts for more than 30% of the weighting of the Index and the HSI ETF's holding of any such constituent securities does not exceed their respective weightings in the Index (except where weightings are exceeded as a result of changes in the composition of the 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 HSI ETF may consist of warrants and options, other than warrants and options held for hedging purposes.
- (6) The HSI ETF may not invest in futures contracts (other than futures contracts entered into for hedging purposes) or in physical commodities (including gold, silver, platinum or other bullion) or commodity based investments (other than securities issued by companies engaged in producing, processing or trading in commodities).
- (7) Not more than 10% of the NAV of the HSI ETF may consist of shares or units in collective investment schemes (and the Manager may not obtain a rebate on any fees or charges levied by such collective investment scheme(s) or their management companies).

- (8) Where the HSI ETF invests in any collective investment scheme(s) managed by the Manager or persons connected to it, all preliminary or initial charges on such collective investment scheme(s) must be waived.
- (9) The HSI 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 HSI 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 HSI 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 HSI ETF would be required to deliver securities having a value exceeding 10% of the NAV of the HSI ETF and also the securities sold short must be actively traded on a stock exchange, over-the-counter market or other organised 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 HSI ETF would exceed 25% of the NAV of the HSI ETF;
  - (f) make a loan out of the assets of the HSI 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 HSI ETF or acquire any asset for the account of the HSI ETF which involves the assumption of any liability by the HSI ETF which is unlimited.

#### *Borrowing restrictions*

The HSI 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 HSI 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 HSI ETF;
- (3) enabling the Manager to realise Units or to pay expenses of the HSI ETF; or
- (4) for any other proper purpose, as the Manager and the Trustee may agree to.

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

If any of the investment or borrowing restrictions applicable to the HSI 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 HSI ETF pursuant to which some or all of the assets of the HSI 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 HSI 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 HSI 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 HSI 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 HSI 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 HSI ETF).

Currently, the Manager has no intention to have any securities lending, repurchase or similar over-the-counter transactions entered into for the account of the HSI ETF. In the future, where the Manager intends to have any securities lending, repurchase or similar over-the-counter transactions entered into for the account of the HSI ETF, subject to SFC's prior approval, 1 month's prior notice will be given to the relevant Unitholders.

### **What are the Risks of Investing in the HSI ETF?**

Investors should note that the risk factors mentioned below are general risks associated with investments in the HSI ETF and investors should consider the information included in this offering document before investing in the HSI ETF. Whilst to the best of knowledge of the Manager, this offering document includes the information necessary for investors to be able to make an informed judgment of their investments and in particular the risks attached thereto, investors should however not solely rely upon such information for any investment in the HSI ETF. Investors should note that there may be various other risks or considerations arising from the then prevailing political, economic,

social and other conditions which may also need to be taken into account before making any decision to invest in the HSI ETF.

Investors should carefully consider the risks involved in investing in the HSI ETF together with all other information included in this offering document and satisfy themselves that the HSI 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. Investors should note that the decision whether or not to invest remains with them. If investors have any doubt as to whether or not the HSI ETF is suitable for them, they should obtain independent professional advice.

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 HSI ETF unless they fully understand and are willing to take the various risks associated with the underlying investments of the HSI ETF (which may expose the HSI 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 HSI 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 HSI ETF.

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

To the extent that the Index concentrates in the securities of a particular industry or group of industries, the Manager may similarly concentrate HSI ETF's investments. HSI ETF's performance could depend heavily on the performance of that industry or group of industries. In addition, because the Manager may invest a significant percentage of the HSI ETF's assets in a single issuer, HSI 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 HSI 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 Index will result in a corresponding fall in the value of the HSI 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 HSI ETF will generally fluctuate with changes in the Index. Intra-day highs and lows of the 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 is 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 the Index*

No assurance can be given that the performance of the HSI ETF will be identical to the performance of the Index primarily because (i) there are various fees and expenses payable out of the HSI ETF's assets, (ii) the assets of the HSI ETF may not be fully invested at all times, for example, minimal cash balances may arise from Special Creation Applications and Special Redemption Applications by the Feeder Fund, (iii) the investment strategy used by the Manager may not result in the HSI ETF holding all of the HSI Constituent Stocks in exactly the same weightings as those stocks have in the Index, (iv) of any adjustment made to the NAV per Unit which is considered to be an appropriate allowance to reflect duties (such as stamp duties) and charges which would be incurred if the investments of the HSI ETF were to be acquired or sold in certain circumstances as referred to in the section headed "Calculation of Issue Price and Redemption Price", (v) of timing differences associated with additions to and deletions from the Index when rebalancing occurs and (vi) the number of shares outstanding of the HSI Constituent Stocks may change from time to time. The use of sampling techniques or futures or other derivative positions may also affect the HSI ETF's ability, for a particular Dealing Day or otherwise, to achieve close correlation with the Index.

### *Trading and Listing Issues*

If the Index is discontinued or the Manager's licence from the Index Proprietor and Index Provider is terminated, the Manager may, in consultation with the Trustee, seek the relevant regulators' prior approval to replace the Index with an index that is tradable and has similar objectives to the Index. For the avoidance of doubt, the index-tracking element of the HSI 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 HSI ETF as a traditional index fund and will notify investors accordingly. In this case, investors in the HSI 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 HSI 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 HSI ETF's investments.

If Units deposited with CCASS become non-eligible securities for deposit with CCASS, Units will be transferred out of CCASS to, and registered in the name of, such party through the Manager and to the respective CCASS Participants (in respect of all other Units created through Participating Dealers). CCASS and HKSCC Nominees Limited (**HKSCC Nominees**) will inform the CCASS Participants (the nominee holders of Units) about the "de-list day". Any expenses arising from such transfer and registration shall be borne by the HSI 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 the SEHK, there can be no assurance that an active trading market for the Units will be maintained.

The composition of the Index may change and HSI Constituent Stocks may be delisted.

### *Concentration of the Index in certain sectors and companies*

The finance sector and the property sector together account for more than half of the market weighting of the Index. Since a substantial amount of the total domestic lending by the banking sector is made for property development and investment and for the purchase of residential properties, the performance of the finance sector may be affected by the performance of the property sector. Property values and rental rates in Hong Kong have been cyclical. This cyclicity can adversely affect the performance, not only of the companies in the property sector but also the banking sector which makes a large portion of lending in connection with property. In addition, certain companies such as HSBC Holdings plc, which represented approximately 15.22% of the Index as at 11 July 2013, are given a large weighting in the Index relative to other companies. As a result, variations in the performance of these sectors or companies could have a larger effect on the price of the Units than a similar variation in the performance of other sectors or companies comprised in the Index.

Declines in the share price of companies in the Index may result in declines in the price of the Units.

#### *Stock Market Volatility*

The value of equity securities, including HSI Constituent Stocks, 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 HSI 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 HSI 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 HSI 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 HSI Constituent Stocks.

#### *Market Makers*

There may or may not be market makers for the HSI 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 HSI ETF.

#### *Risk of Termination of the HSI ETF*

The HSI ETF may be terminated by the Trustee under certain circumstances as specified in the section headed “Termination of the HSI ETF”. It is possible that, at the time of such termination, investors have to realize their investment loss and will not be able to receive an amount equal to their capital originally invested.

#### *Risks associated with distribution out of capital or effectively out of capital*

The Manager may, at its discretion, pay dividend out of capital or effectively out of capital. Payment of dividends out of capital or effectively out of capital amounts to a return or withdrawal of part of an investor's original investment or from any capital gains attributable to that original investment. Any distributions involving payment of dividends out of the capital of the HSI ETF or effectively out of the capital of the HSI ETF may result in an immediate reduction of the Net Asset Value per Unit of the HSI ETF. Please refer to the section “Dividend Policy”.

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

##### *Political and economic considerations*

The HSI ETF tracks the Index and its investments include shares of companies which have substantial business exposure to growth opportunities in the mainland China (**the Mainland**) and listed on the SEHK (including H-shares and red chips shares). 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 HSI 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 HSI ETF to fully implement or pursue the investment objective and strategy of the HSI 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, pound sterling 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 HSI 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 HSI ETF".

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

Investors may:

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

For the Feeder 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 the SEHK*

Investors can purchase and sell Units in board lots of 100 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 will 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 creations and in-kind redemptions*

Investors may apply for in-kind creation of Units based on NAV per Unit through Participating Dealers by tendering a basket (**Basket**) of HSI 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 HSI 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 HSI ETF's index tracking strategy, the weightings of the HSI 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 HSI 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 12:15 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.

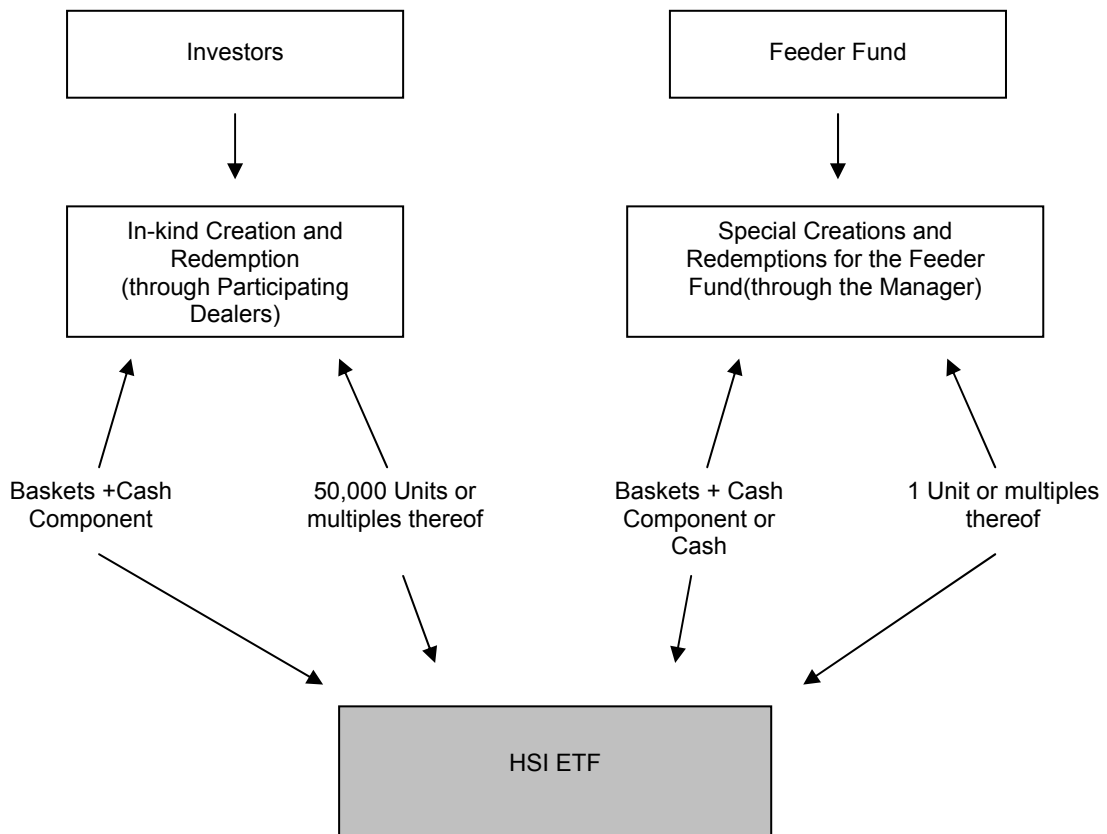
#### *Special creations and redemptions*

The Manager may also facilitate cash 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.

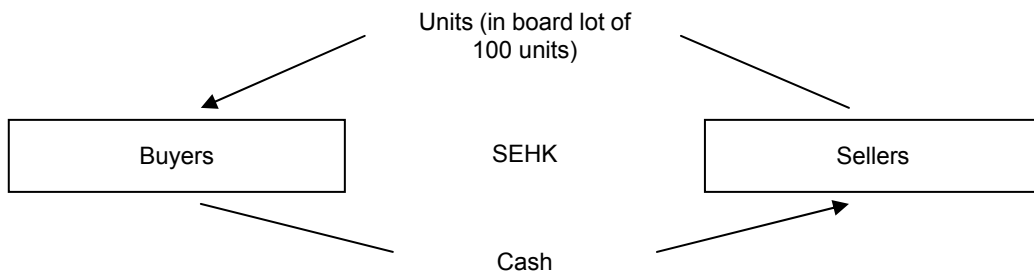
The Dealing Deadline for making a special creation application and a special redemption application by the Feeder Fund is the official closing time of the SEHK on the relevant Dealing Day, or such other time prior to the calculation of the Net Asset Value of the HSI ETF on that Dealing Day as the Manager 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 12:00 noon (Hong Kong time) if the SEHK opens for normal trading only in the morning of the relevant Dealing Day.

The diagrams below 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 HSI ETF. The register of the HSI ETF is the evidence of ownership of Units. Your beneficial interest in Units shall be established through 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 the SEHK (secondary market)	board lot of 100	On the SEHK	<b>Any investor</b> satisfying the minimum unit requirements	Market price of Units on the SEHK Brokerage Fees and duties and charges
In-kind Creation and Redemption	50,000	Through Participating Dealers	<b>Any investor</b> satisfying the minimum unit requirements	Basket Cash Component Transaction Fee Other Fees and Charges (payable to HKSCC and HKCAS)
Special Creation and Redemption	1	Through the Manager	<b>Feeder 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 Dealings 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 HSI ETF will not issue fractional Units.

### **Determination of Net Asset Value**

The Net Asset Value of the HSI 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 HSI 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 HSI 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 Index is not compiled or published;
- (5) there exists any state of affairs as a result of which delivery or purchase of HSI Constituent Stocks or disposal of investments for the time being comprised in the HSI ETF cannot, in the opinion of the Manager, be effected normally or without prejudicing the interests of investors in the HSI 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 HSI 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 HSI 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 HSI 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 HSI 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 HSI ETF.

To ensure all investors in the HSI 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 HSI ETF, which it considers to be an appropriate allowance to reflect duties (such as stamp duties) and charges which would be incurred if the appropriate number of HSI Constituent Stocks 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 HSI 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 (such as stamp duties) and charges which would be incurred if the appropriate number of HSI Constituent Stocks 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 HSI ETF**

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

### *Management Fee*

HSI ETF will pay 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 HSI ETF at an extraordinary general meeting.

### *Trustee Fee*

HSI ETF will pay the Trustee a monthly fee calculated by reference to daily NAV, which fee is inclusive of any fee charged by the Administrator appointed by the Trustee. 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 HSI ETF at an extraordinary general meeting.

### *Other Expenses*

The HSI 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 HSI 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 (including the Product Key Facts Statement for the HSI ETF) 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. For the avoidance of doubt, no expenses arising out of any advertising or promotional activities in connection with the HSI ETF will be paid from the assets of the HSI ETF.

### *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 HSI 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 HSI ETF will be consistent with best execution standards and brokerage rates borne by HSI 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**

The Manager may, at its discretion, distribute semi-annual cash dividends (if any), which are expected to be in respect of the first half and the second half of each calendar year respectively. The Manager currently intends to make declaration of distribution in June and November of each year. There is no guarantee of regular distribution and if distribution is made the amount being distributed.

The Manager may, at its discretion, pay dividend out of capital of the HSI ETF as contemplated by FAQ34 of the Code of Unit Trusts and Mutual Funds issued by the SFC. The Manager may also, at its discretion, pay dividend out of gross income while all or part of the fees and expenses of the HSI ETF are charged to/paid out of the capital

of the HSI ETF, resulting in an increase in distributable income for the payment of dividends by the HSI ETF and therefore, the HSI ETF may effectively pay dividend out of capital as contemplated by FAQ34.

Payment of dividends out of capital or effectively out of capital amounts to a return or withdrawal of part of an investor's original investment or from any capital gains attributable to that original investment. Any distributions involving payment of dividends out of capital or effectively out of capital may result in an immediate reduction of the Net Asset Value per Unit.

The compositions of the dividends (i.e. the percentages of dividends being paid out of (i) net distributable income and (ii) capital) for a rolling 12-month period starting from November 2012 are available from the Manager on request and on the website [www.hangseng.com/etf](http://www.hangseng.com/etf). Details of ex-dividend dates and dividend payment dates shall also be published on the website [www.hangseng.com/etf](http://www.hangseng.com/etf) and via the SEHK's website [www.hkex.com.hk](http://www.hkex.com.hk). The Manager may amend the policy regarding paying dividends out of capital or effectively out of capital subject to the SFC's prior approval and by giving not less than 1 month's advance notice to Unitholders.

## **Reporting to Investors**

### *Reports and Accounts*

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

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

The semi-annual and annual financial reports will be available in both English and Chinese language, and 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.

Notice will be given to unitholders to notify them where the financial reports, in printed and electronic forms, can be obtained within the relevant timeframe.

### *HSI ETF Information on the Internet*

The Manager will publish information with respect to the HSI 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 (including the Product Key Facts Statement for the HSI ETF), as it may be updated from time to time;
- compositions of the dividends (i.e. the percentages of dividends being paid out of (i) net distributable income and (ii) capital) for a rolling 12-month period starting from November 2012;
- the latest semi-annual and annual financial reports of the HSI ETF; and
- any public announcements made by the HSI ETF, including information with respect to any change in manager or trustee, fees, management of the Manager, key service providers to the HSI 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 HSI 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 Dealers' in-kind creation and redemption of Units.

### *Trading Information*

The trading Information (including the last closing Net Asset Value per Unit) of the HSI ETF is disclosed on the SEHK's website [www.hkex.com.hk](http://www.hkex.com.hk). The intra-day estimated NAV (or RUPV) of the HSI ETF is updated at 15-second intervals during trading hours and available on the website [www.hangseng.com/etf](http://www.hangseng.com/etf).

### *Information About the Index*

Information regarding the Index and the index provider of such index can be found in Appendix 2. Real-time updates about the Index can be obtained through the SEHK Teletext System, Thomson Reuters, Bloomberg and on [www.hsi.com.hk](http://www.hsi.com.hk) the latter of which contains the additional and latest updated information about the Index and a description of the way in which such index is calculated. It is your own responsibility to obtain the current Index information (including without limitation, any change in the composition of the Index, any change in the method for compiling and calculating the 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 HSI Constituent Stocks*

Information on the individual HSI 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 HSI Constituent Stock. It is your own responsibility to check up the latest updated information on the individual HSI Constituent Stocks including but not limited to events arising from the affairs of the HSI Constituent Stocks such as any price sensitive information disclosed by the issuer of any individual HSI Constituent Stock, any announcement regarding any suspension of a HSI 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.

## **HSI ETF Management**

### *Manager / Listing Agent*

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

Hang Seng Investment Management Limited was incorporated in Hong Kong with limited liability in April 1993. It is a wholly-owned subsidiary of Hang Seng Bank Limited (**Hang Seng Bank**) and the investment arm of its parent. It also 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 the Hang Seng Investment Series, a unit trust established as an umbrella fund under the laws of the Cayman Islands, and the Hang Seng Index Fund thereunder was launched in 1998 and is one of the early index funds in Hong Kong to track the performance of Hang Seng Index. It is also the investment manager of two constituent funds namely Hang Seng Index Tracking Fund and Hang Seng H-Share Index Tracking Fund under the Hang Seng and HSBC MPF schemes.

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. Hang Seng Bank operates around 220 service outlets in Hong Kong, serving both personal and business customers. Hang Seng Bank also maintains a branch in Shenzhen for foreign currency wholesale business, branches in Macau and Singapore, and a representative office in Taipei. Established on 28 May 2007, wholly-owned subsidiary Hang Seng Bank (China) Limited operates a network of 46 outlets in Beijing, Shanghai, Guangzhou, Shenzhen, Dongguan, Fuzhou, Nanjing, Hangzhou, Ningbo, Tianjin, Kunming, Foshan, Zhongshan, Huizhou, Xiamen, Zhuhai and Jiangmen. With total assets of HK\$1,077.1 billion as at the end of 2012, Hang Seng Bank reported a profit attributable to shareholders of HK\$19,426 million for 2012.

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 Administrator*

The trustee of the HSI ETF is AIA Company (Trustee) Limited.

The Trustee is responsible for the safe-keeping of the assets of the HSI ETF. The Trustee may delegate its administrative and custodian roles to any person or persons. Currently, the Trustee has delegated its administrative and custodian roles to HSBC Provident Fund Trustee (Hong Kong) Limited. The Trustee may change such delegations from time to time. The sub-custodian currently appointed by HSBC Provident Fund

Trustee (Hong Kong) Limited is The Hongkong and Shanghai Banking Corporation Limited, although this appointment may be changed from time to time.

#### *Registrar*

The registrar of the HSI ETF is HSBC Provident Fund Trustee (Hong Kong) Limited.

#### *Conversion Agent*

The conversion agent in respect of the HSI 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 50,000 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 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 Index and is the index provider to the HSI 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 HSI ETF**

The Manager and the Trustee may from time to time act as trustee, administrator, registrar, secretary, manager, custodian, investment manager or investment adviser (as the case may be) 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 HSI ETF. It is possible that in the course of transactions between the HSI ETF and the connected persons to the Manager, there may be potential conflicts of interest with the HSI ETF. If such conflicts arise, the Manager will use its best efforts to ensure that investors in the HSI ETF are treated fairly

The Manager and the connected persons to it may enter into transactions with the HSI ETF as principal.

Such transactions will be disclosed in the HSI ETF's audited annual report and shall only be made with the prior written consent of the Trustee except where such transactions are (i) unit creation or redemption applications or (ii) an investment in a Collective Investment Scheme managed by the Manager or the connected persons to it, conducted at the NAV of the HSI ETF or, as the case may be, the prevailing net asset value of the Collective Investment Scheme, on no more favourable terms and conditions than those available to any other person.



The Manager and persons connected to the Manager may have banking or other financial relationships with a company whose shares are a HSI Constituent Stock.

The Manager and persons connected to the Manager may hold and deal in Units or in investments held by the HSI ETF either for their own account or for the account of their customers.

The moneys of HSI ETF may be deposited with persons connected to the Manager or invested in certificates of deposit or banking instruments issued by such persons at an interest rate not lower than a rate negotiated at arm's length.

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

The operating parties (including the Manager, the Trustee, the Administrator, the Registrar, the Custodian, 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 HSI ETF are treated fairly.

The Manager is also the investment manager of the Feeder Fund.

### **Taxes and Duties Payable by the HSI ETF**

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

#### Hong Kong

##### *Profits Tax*

As an Authorised Fund, profits of HSI ETF arising from the sale or disposal of securities, net investment income received by or accruing to the HSI ETF and all other profits of the HSI 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 HSI ETF to an investor upon redemption of Units will also be remitted or refunded.

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

The sale and purchase of HSI Constituent Stocks by HSI 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 HSI ETF will be liable to one half of such Hong Kong stamp duty.

#### The Mainland

The HSI ETF invests primarily in HSI Constituent Stocks which include shares of companies incorporated in the Mainland and listed in Hong Kong (i.e. H-shares) and red chips shares. By investing in H-shares and/or certain red chips shares, the HSI ETF is subject to withholding of Enterprise Income Tax imposed in the Mainland. The HSI ETF may also be subject to other taxes imposed in the Mainland.

Under the PRC Enterprise Income Tax Law and its implementation rules, incomes derived from the Mainland by non-resident enterprises which have no establishment or place in the Mainland are subject to withholding of Enterprise Income Tax at the rate of 10% (such rate may however be subject to change from time to time). As such, in respect of the investments of the HSI ETF in H-shares and/or certain red chips shares of which the incomes (such as dividends on such investments) are derived from the Mainland, if any, the HSI ETF is subject to withholding of Enterprise Income Tax; and such withholding tax will reduce the income from the HSI ETF and adversely affect the performance of the HSI 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 chips shares would be subject to withholding of Enterprise Income Tax and if so, whether such withholding will apply retrospectively). Currently, the Manager has not made any provision for taxes. To ensure fairness to all unitholders, the Manager reserves the right to make any provision for taxes or deduct or withhold an amount on account of taxes (for which the HSI ETF may be directly or indirectly liable to the PRC tax authorities in respect of its investments) from assets of the HSI ETF as it considers appropriate.

Once the PRC tax authority has issued further notices or clarified the uncertainties regarding the application of the PRC Enterprise Income Tax Law and its implementation rules, the Manager may make such provision for taxes or such adjustments to the amount of provision for taxes (if any) as it considers necessary as soon as practicable. If provision for taxes is to be made, the Manager will notify the relevant unitholders of the same as soon as practicable. The amount of such provision/deduction/withholding for taxes by the Manager will be disclosed in the financial reports of the HSI ETF.

In case of no provision for taxes being made or a difference between the HSI ETF's provision for taxes (if any) and its actual PRC tax liabilities, the relevant amounts shall be credited to or debited from the assets of the HSI ETF (as the case may be). As a result, the income from, and/or the performance of the HSI ETF may / may not be adversely affected and the impact/degree of impact on individual unitholders of the HSI ETF may vary, depending on factors such as the level of the HSI ETF's provision for taxes (if any) and the amount of the difference at the relevant time and when the relevant unitholders purchased and/or sold their Units in the HSI ETF/when the relevant Units in the HSI ETF are created and/or redeemed.

There is a possibility that the current tax laws, rules, regulations and practice in the Mainland and/or the current interpretation or understanding thereof may change in the future and such change(s) may have retrospective effect. The HSI 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 HSI 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 HSI 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 HSI 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 HSI 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 HSI 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 (including the Product Key Facts Statement for the HSI ETF) 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 HSI ETF's constitutive documents, including the Trust Deed, the Delegation Agreement, the Delegation Letter, 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 HSI 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 HSI 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 (including the Product Key Facts Statement for the HSI ETF) as being accurate at the date of publication.

#### **Termination of the HSI ETF**

The HSI 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 HSI 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 HSI 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 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 (including the Product Key Facts Statement for the HSI ETF) and information on the HSI 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 HSI ETF

Management Fee ^	0.05% per annum
Trustee Fee ^	0.05% per annum

^ Please note that the annual rate stated is the rate charged currently. It may be increased up to a permitted maximum rate (which is 2.5% per annum for Management Fee and 1% per annum for Trustee Fee) as set out in the Trust Deed by giving 1 month's prior notice to relevant Unitholders.

There will be other expenses which will be borne by the HSI ETF including the fees and expenses of the registrar, auditors, legal fees, index licensing fees, printing costs on publication of this offering document (including the Product Key Facts Statement for the HSI ETF) and the Trust Deed, etc. Please refer to the section headed "Fees and Expenses Payable by the HSI ETF" for details.

### (2) Fees and Charges payable by investors in the HSI 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)	HSI ETF
	Extension fee	(1)	HSI ETF
	Partial delivery request fee	(1)	HSI ETF
	Transaction fee	(2)	HSI ETF
In-kind Application to Redeem Units	Corporate action fee	HK\$0.80 per board lot*	HKSCC
	Application cancellation fee	(1)	HSI ETF
	Extension fee	(1)	HSI ETF
	Transaction fee	(2)	HSI ETF
	Unit cancellation fee	HK\$1.00 per board lot	HKCAS

\* 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 (actual amount at the Manager's discretion) per Participating Dealer, for aggregate creation and redemption on that day.
- (2) The applicable amount is up to HK\$25,000 per Participating Dealer's aggregate creation or redemption on that day and the current amount is HK\$20,000. 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.

<b>Total Aggregated Value Transacted Daily</b>	<b>Conversion Agent's Fee</b>
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	0.003% 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 0.003% 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 Hang Seng Index

The Index, launched on 24 November 1969, measures the performance of the largest and most liquid companies listed in Hong Kong. It comprises a representative sample of stocks quoted on the SEHK. The Index is calculated with a base value of 100 as of 31 July 1964. It is calculated on a 2-second basis during trading hours of the SEHK and its closing value is based on official closing prices of stocks announced by the SEHK.

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

Constituent stocks of the Index are selected by a rigorous process of detailed analysis. Only companies with a primary listing on the Main Board of the SEHK are eligible potential constituents. The mainland China enterprises that have a H-share listing in Hong Kong will be eligible for inclusion in the Index if they meet one of the following conditions: (1) the H-share company has 100% of its ordinary share capital in the form of H-shares which are listed on the SEHK; (2) the H-share company has completed the process of the share reform, with the result that there is no unlisted share capital in the company; or (3) for new H-share initial public offerings, the company has no unlisted share capital.

Besides, to be eligible for inclusion in the Index, a company (1) must be among those companies that constitute the top 90% of the total market capitalisation of all primary listed shares on the SEHK (market capitalisation is expressed as an average of the past 12 months); (2) must be among those companies that constitute the top 90% of the total turnover of all primary listed shares on the SEHK (turnover is aggregated and individually assessed for eight quarterly sub-periods for the past 24 months); and (3) should normally have a listing history of 24 months on the SEHK or meet the requirements below in relation to large-cap stocks listed for less than 24 months.

In connection with item (3) of the preceding paragraph, the minimum listing history required for a newly-listed large-cap stock to be eligible for inclusion in the Index is as follows:

Average market capitalisation ranking at time of Index review	Minimum listing history
Top 5	3 Months
6 – 15	6 Months
16 – 20	12 Months
21 – 25	18 Months
Below 25	24 Months

The final selections are based on the following:

- the market capitalisation and turnover ranking of the company;
- the representation of the relevant sub-sector within the Index directly reflecting that of the market; and
- the financial performance of the company.

A freefloat-adjusted market capitalization weighted methodology with a 15% cap on each constituent weighting is adopted for the calculation of the Index.

As at 11 July 2013, the respective weightings of the four sectors of stocks comprising the Index were:

Sector of constituent stocks	Weighting (%)
Finance	46.81
Commerce and Industry	37.21
Properties	10.53
Utilities	5.45

As at 11 July 2013, the respective weightings of the top 10 largest constituent stocks of the Index were as follows:

Stock Code	Stock Name	Weighting (%)
5	HSBC Holdings plc	15.22
941	China Mobile Ltd.	7.26
939	China Construction Bank Corporation – H Shares	6.82
1299	AIA Group Ltd.	6.20
1398	Industrial and Commercial Bank of China Ltd. – H Shares	5.37
700	Tencent Holdings Ltd.	5.08

3988	Bank of China Ltd. – H Shares	3.76
883	CNOOC Ltd.	3.58
857	PetroChina Co. Ltd. – H Shares	2.90
13	Hutchison Whampoa Ltd.	2.66

Real-time update of the Index can be obtained through the SEHK Teletext System, Thomson Reuters, Bloomberg and the website of HSIL at [www.hsi.com.hk](http://www.hsi.com.hk). As for other important news of the Index, HSIL will make announcement through press release and at website [www.hsi.com.hk](http://www.hsi.com.hk).

*Please note:*

- The list of constituent stocks which comprise the Index is reviewed by HSIL on a quarterly basis. The composition of the Index may change and be substituted with other companies as determined by HSIL if any of the constituent companies were to delist its shares.
- The accuracy and completeness of the calculation of Index may be affected if there is any problem with the system for the computation and/or compilation of the Index.
- Under the terms of the licence agreement regarding the use of the 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 HSI ETF, use of the Index in connection with such trading, computation of the Index, or any errors, mistakes or omissions in making such computation or in collecting or using relevant information for that purpose (except in case 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 Index. As the Manager is entitled to be indemnified from the assets of the HSI ETF 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 HSI ETF.

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**AGAINST HANG SENG INDEXES COMPANY LIMITED AND/OR HANG SENG DATA SERVICES LIMITED** in connection with the HSI ETF in any manner whatsoever by any broker, holder or other person dealing with the HSI ETF. Any broker, holder or other person dealing with the HSI 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 HSI ETF, the in-kind creation of Units in exchange for the transfer, by a Participating Dealer, to or for the account of the HSI ETF, of the HSI 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 HSI ETF has insufficient cash required to pay any Cash Component payable by the HSI ETF, the Manager may effect sales of the deposited property of the HSI 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 HSI Constituent Stocks constituting a Basket would have certain adverse tax consequences for the HSI ETF; (ii) the Manager reasonably believes that the acceptance of the HSI Constituent Stocks constituting a Basket would be unlawful; (iii) the acceptance of the HSI Constituent Stocks constituting a Basket would otherwise, in the opinion of the Manager, have an adverse effect on the HSI 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 HSI 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 HSI 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 HSI 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 HSI 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 HSI Constituent Stocks constituting the Basket deposited for exchange have not been vested by or on the relevant Settlement Day in the HSI 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 HSI Constituent Stock or HSI Constituent Stocks) such extension to be on such terms and conditions (including as to the payment of an Extension Fee to the HSI 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 HSI Constituent Stocks constituting the Basket deposited for exchange (or equivalent HSI Constituent Stocks of the same type) as have been vested in the HSI ETF and any cash received by or on behalf of the HSI 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 HSI ETF an Application Cancellation Fee; and
- no previous valuations of the HSI 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 HSI 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 HSI 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 HSI Constituent Stocks in lieu of accepting such HSI 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 HSI ETF) to the applicant of any Units for which cash is paid in lieu of delivering any HSI 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 HSI 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 HSI Constituent Stocks as collateral for such HSI Constituent Stock(s) until they are delivered.

Any such collateral will be held for the account of the HSI ETF in a non-interest bearing account and shall be redelivered to the Participating Dealer after delivery of such HSI Constituent Stocks (by 4:00 p.m. on the Dealing Day on which the delivery is made (**Delivery Date**) if such HSI 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 HSI 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 HSI 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 HSI 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 HSI 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.

The Manager has the right to reject or suspend a redemption application if (i) circumstances outside the control of the Manager make it for all practicable purposes impossible to process redemption applications or (ii) the Manager has suspended the rights of Participating Dealers to make redemption applications pursuant to the Trust Deed.

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 HSI 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 HSI 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 HSI ETF has insufficient cash required to pay any Cash Component payable by the HSI ETF, the Manager may effect sales of the deposited property of the HSI 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 HSI 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 HSI 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 HSI ETF, covering the relevant Dealing Day, have been prepared, to require the Manager to justify its calculation of the Redemption Price.

Any HSI 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 HSI 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 HSI Constituent Stocks constituting the Basket relevant to the redemption application out of the deposited property of the HSI 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 HSI 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 HSI ETF;
- the Manager may charge the Participating Dealer for the account of the HSI ETF an Application Cancellation Fee; and
- no previous valuations of the HSI 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 HSI 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 HSI 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>Administrator</b>	any person or persons to whom the Trustee delegates certain of its administrative duties in respect of the HSI ETF
<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 HSI 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) (SFC authorisation is not a recommendation or endorsement of a Collective Investment Scheme nor does it guarantee the commercial merits of a Collective Investment Scheme or its performance. It does not mean the Collective Investment Scheme is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.)
<b>Basket</b>	a portfolio of HSI Constituent Stocks based on the stock weightings in the 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 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 the Feeder 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 times prior to the calculation of the Net Asset Value of the HSI ETF on that Dealing Day as the Manager may determine and agree with the Trustee
<b>Delegation Agreement</b>	an agreement entered into between the Trustee and HSBC Provident Fund Trustee (Hong Kong) Limited setting out, (amongst other things), the delegation of certain of the Trustee's duties and its custodial function to HSBC Provident Fund Trustee (Hong Kong) Limited
<b>Delegation Letter</b>	a letter agreement entered into between the Trustee and the Manager setting out, (amongst other things), the delegation of certain of the voting rights conferred on the Trustee pursuant to the Trust Deed to the Manager
<b>Delivery Date</b>	the Dealing Day on which previously unavailable HSI 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 HSI ETF, the current fee level of which is set out in Appendix 1
<b>Feeder Fund</b>	the Hang Seng Index Tracking Fund
<b>Hang Seng Index Tracking Fund</b>	<p>a SFC authorised fund* investing solely in the HSI ETF, also approved by the Mandatory Provident Fund Schemes Authority, with the Manager acting as the investment manager and a constituent fund of the following six schemes:</p> <p>Hang Seng Mandatory Provident Fund – Supertrust;  Hang Seng Mandatory Provident Fund - Supertrust Plus;  Hang Seng Mandatory Provident Fund – ValueChoice;  HSBC Mandatory Provident Fund – Supertrust;  HSBC Mandatory Provident Fund - Supertrust Plus; and  HSBC Mandatory Provident Fund – ValueChoice</p> <p>* SFC authorisation is not a recommendation or endorsement of the Hang Seng Index Tracking Fund nor does it guarantee the commercial merits of the Hang Seng Index Tracking Fund or its performance. It does not mean the Hang Seng Index Tracking Fund is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.</p>
<b>HKCAS</b>	HK Conversion Agency Services Limited
<b>HKSCC</b>	Hong Kong Securities Clearing Company Limited
<b>HKSCC Nominees</b>	HKSCC Nominees Limited or such other nominee company as may be



	used by HKSCC from time to time
<b>HSI Constituent Stocks</b>	the constituent stocks of the Index
<b>Index</b>	the Hang Seng Index
<b>Index Proprietor</b>	Hang Seng Data Services Limited, the owner of the mark and name of the Index against which the HSI ETF benchmarks its investments
<b>Index Provider</b>	Hang Seng Indexes Company Limited, the person responsible for managing and compiling the Index against which the HSI ETF benchmarks its investments
<b>Index Share(s)</b>	the constituent stock(s) of a stock index
<b>Index Funds Series II</b>	the Hang Seng Investment Index Funds Series II
<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>	21 September 2004, 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 HSI 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 HSI ETF, the current fee level of which is set out in Appendix 1
<b>Participation Agreement</b>	a written agreement entered into between the Administrator, 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 Feeder Fund
<b>Special Redemption Application</b>	an application for the redemption of Units by the Feeder 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 HSI 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 Proprietor dated 10 September 2004 constituting the Index Funds Series II, as amended from time to time
<b>Trustee</b>	AIA Company (Trustee) Limited
<b>Unit</b>	one undivided share of the HSI 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 HSI ETF other than where there is a suspension of the determination of the Net Asset Value of the HSI ETF pursuant to the provisions in the Trust Deed

**REGISTERED ADDRESS OF THE HSI ETF**

*c/o* **Hang Seng Investment Management Limited**  
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**MANAGER AND LISTING AGENT**

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