

Hang Seng Index ETF

(stock code : 2833)

Hong Kong Offering Document

1 February 2005

HANG SENG INDEX ETF

2833

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 financial adviser.

Application has been made to The Stock Exchange of Hong Kong Limited for listing of and for permission to deal in the Units of the Hang Seng Index ETF. Units are neither listed nor dealt on any other stock exchange and no application for such listing or permission to deal is being or will be sought as at the date of this offering document.

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The Hang Seng Index ETF has been authorised as a collective investment scheme by the Securities and Futures Commission. Authorisation does not imply official approval nor a recommendation.

Hang Seng Investment Management Limited

Issued by Hang Seng Investment Management Limited, a wholly-owned subsidiary of Hang Seng Bank



Hang Seng Investment

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Selling and Holding Restrictions

No action has been taken to permit an offering of any units (**Units**) of the Hang Seng Index ETF (**HSI ETF**) or the distribution of this offering document in any jurisdiction other than Hong Kong where action would be required for such purposes. Accordingly, this offering document may not be used for the purpose of, or treated as, an offer or solicitation in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised unless in the relevant jurisdiction such an offer or solicitation could lawfully be made without compliance with any registration or other legal requirement.

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.

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 entitled "What are the Risks of Investing in the HSI ETF?".

Key Information in respect of the HSI ETF

Instrument Type	Exchange Traded Fund (ETF)
Tracked Index	Hang Seng Index (Index)
Listing Date	Expected to be on 21 September 2004, but not later than 31 December 2004
Exchange Listing	The Stock Exchange of Hong Kong Limited (SEHK) – Main Board
Stock Code	2833
Trading Board Lot Size	100 Units
Trading Currency	Hong Kong dollars
Dividend Payout	Semi-annually (if any)
Market price per Unit in Proportion to the Index	Approximately 1/100 ¹
In-kind Creation/ Redemption (via Participating Dealers only)	Minimum 50,000 Units (or multiples thereof)
Manager	Hang Seng Investment Management Limited
Trustee	American International Assurance Company (Trustee) Limited
Registrar	HSBC Provident Fund Trustee (Hong Kong) Limited
Web Site	http://www.hangseng.com/etf

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 Hang Seng Index (**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 33 constituent stocks which are representative of the Hong Kong stock market. The aggregate market value of these stocks accounts for about 70% of all stocks listed on the Main Board of the SEHK.

Two Offering Phases

The HSI ETF will be established on 13 September 2004.

Units in the HSI ETF are denominated in Hong Kong dollars and are being offered to investors in two phases.

Before Listing

The first phase (**Before Listing**) is from 9:15 a.m. on 13 September 2004 until 4:15 p.m. on the Dealing Day (which is expected to be on 20 September 2004 but may be postponed to a day no later than 30 December 2004) before the day on which dealings in Units commence on the SEHK (**Listing Date**). During this period, the HSI ETF will operate like a traditional index fund. You may acquire or dispose of Units in the following ways:

¹ 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.

- (1) In-kind creation (until the date that is three Dealing Days prior to the Listing Date) through authorised participants (**Participating Dealers**) for Units to be available for trading on the Listing Date; and
- (2) In-kind redemption through Participating Dealers.

After Listing

The second phase (**After Listing**) commences on the Listing Date and continues until the HSI ETF is terminated. Dealings in the Units on the SEHK are expected to commence on 21 September 2004, but may be postponed by the Manager to a day no later than 31 December 2004.

You may:

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

Expected timetable

Please refer to the section headed "What are the Two Offering Phases and how do they differ?" for details. The following table summarises all key events and the Manager's expected timetable:

<p>Before Listing offering period commences</p> <ul style="list-style-type: none"> • Subscriptions and redemptions (both in cash and in kind) through the Manager for the Feeder Funds • In-kind creations and redemptions through Participating Dealers in minimum number of 50,000 Units (or multiples thereof) (expected to commence on 15 September 2004) 	9:15 a.m. on 13 September 2004
<p>The date that is three Dealing Days prior to the Listing Date</p> <ul style="list-style-type: none"> • Latest time for in-kind creation applications through Participating Dealers for Units to be available for trading on the Listing Date 	Expected to be 4:15 p.m. on 16 September 2004 but may be postponed by the Manager to a day no later than 28 December 2004
<p>The date that is one Dealing Day prior to the Listing Date</p> <ul style="list-style-type: none"> • All Units issued Before Listing and not already registered in the name of HKSCC Nominees Limited (and not redeemed) will be deposited with CCASS and transferred to and registered in the name of HKSCC Nominees Limited before CCASS's last batch settlement run in order to facilitate the secondary market trading of the Units on the SEHK After Listing 	Expected to be 20 September 2004 but may be postponed by the Manager to a day no later than 30 December 2004
<p>After Listing period commences on the Listing Date</p> <ul style="list-style-type: none"> • Investors may start trading Units on the SEHK through any designated brokers; • Subscriptions and redemptions (both in cash and in kind) through the Manager for the Feeder Funds continue; • In-kind creations and redemptions through Participating Dealers in a minimum number of 50,000 Units (or multiples thereof) continually applies* 	Expected to be 9:30 a.m. on 21 September 2004, but may be postponed by the Manager to a day no later than 31 December 2004

* The CCASS terminal will be available from 9:15 a.m.

The expected timetable may be changed. You have to consider any likely change in the expected timetable in making your investment decision in relation to the HSI ETF. Notice of any such change will be given in accordance with “General Information – Notices to Investors”. Please see the section entitled “What are the Risks of Investing in the HSI ETF? – Trading and Listing Issues”.

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 Units are suitable for you in terms of your own circumstances and financial position before making any decision to invest in the HSI ETF.

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 entitled “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 entitled "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% ¹
10% - 30%	4%
30% - 50%	3%
Above 50%	2%

¹ 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 Securities and Futures Commission (**SFC**) for sale to investors in Hong Kong pursuant to the Securities and Futures Ordinance (an **Authorised Fund**). 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 "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.
- (8) No increase in the overall total management fees, trustee fees or any other costs and charges payable to the Manager or any person connected to it by investors in the HSI ETF or by the HSI ETF may result if HSI ETF invests in another collective investment scheme managed by the Manager or a person connected to it.
- (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 restrictions

The HSI ETF may enter into securities lending transactions pursuant to which some or all of its assets may be lent to one or more third party borrowers. Securities lending transactions will only be entered into:

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

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. Where any securities lending transaction has been arranged through the Manager or the Trustee or a connected person of either of them, 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. There is no upper limit on the extent of such transactions.

What are the Risks of Investing in the HSI ETF?

Many factors will affect the performance of the HSI ETF.

You should carefully consider the risks involved in investing in Units together with all other information included in this offering document before making an investment decision. You shall also satisfy yourself that the HSI ETF is suitable for you in terms of your own circumstances and financial position before making any decision to invest. 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.

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. After Listing, 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 Funds, (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 timing differences associated with additions to and deletions from the Index when rebalancing occurs and (v) 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 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 not listed on the SEHK on or before 31 December 2004 or 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.

Before Listing, the HSI ETF shall operate as a traditional index fund. During this period investors shall not transfer their Units and may only exit from their investment in Units at the Redemption Price (which is calculated based on the valuation of the assets of the HSI ETF at the Valuation Point on the relevant Dealing Day). Investors may miss opportunities to realise their investment in Units when the Index is higher during a trading day than it is at the end of such trading day (when the Redemption Price is calculated) as a result of not being able to exit via a sale on the SEHK.

Units created Before Listing through the Manager will be issued and registered in the name of The Hongkong and Shanghai Banking Corporation Limited. Such Units will then be deposited in book entry form with CCASS on the CCASS Settlement Day immediately before the Listing Date. Once deposited with CCASS, such Units will be registered in the name of HKSCC Nominees Limited (**HKSCC Nominees**) on the register of the HSI ETF. Such Units shall not be transferred by you until After Listing. Units created Before Listing through Participating Dealers will be credited to each Participating Dealer's CCASS Account and registered in the name of HKSCC Nominees on the register of the HSI ETF. Participating Dealers shall not transfer such Units until After Listing.

If Units 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 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 to be listed on the SEHK on the Listing Date, there can be no assurance that an active trading market for the Units will be maintained during the After Listing period.

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 cyclical nature 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 33.58% of the Index as at 6 September 2004, 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.

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

The Before Listing phase commences at 9:15 a.m. on 13 September 2004 and runs until 4:15 p.m. on the Dealing Day before the Listing Date, which is expected to be 20 September 2004 but may be postponed by the Manager to a day no later than 30 December 2004.

The After Listing phase commences at 9:30 a.m. on the Listing Date (which is expected to be 21 September 2004 but may be postponed by the Manager to a day no later than 31 December 2004), and shall continue until the HSI ETF is terminated.

During the Before Listing phase and the After Listing phase, in-kind creation and redemption applications may be made by the Participating Dealers and the Feeder Funds but Units may only be subscribed for or redeemed in-cash by the Feeder Funds (See "Special Creations and Redemptions" described below for subscriptions and redemptions by the Feeder Funds). Moreover, during the After Listing phase, Units may be traded on the SEHK like ordinary stocks.

The cut-off time (**Dealing Deadline**) for making a special creation and redemption application by a Feeder Fund is the official closing time of the SEHK (normally 4:00 p.m.) 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 Dealing Deadline for making an in-kind creation and redemption application by a Participating Dealer is 15 minutes after the official closing time of the SEHK (normally 4:15 p.m.) on each Dealing Day.

Before Listing Period

During this period, the HSI ETF will operate like a traditional index fund. You may acquire and dispose of Units in the following ways:

- (1) In-kind creation (until the date that is three Dealing Days prior to the Listing Date) through Participating Dealers for Units to be available for trading on the Listing Date; and
- (2) In-kind redemption through Participating Dealers.

In-kind creation and redemption

You 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. You 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, you 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 your holdings. In other words, your exposure to the share market is neither increased nor decreased through an in-kind creation or redemption but you should note that the HSI ETF will be subject to minimal 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.

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. Only Units issued pursuant to

in-kind creation applications made and settled on or before the third Dealing Day prior to the Listing Date will be available for trading in the secondary market upon the Listing Date.

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.

Units issued Before Listing pursuant to in-kind creation through Participating Dealers will be registered in the name of HKSCC Nominees on the register of HSI ETF and will be deposited with CCASS, two CCASS Settlement Days after application. Although such Units are transferable within CCASS before the Listing Date, the Participating Dealers shall not transfer such Units until After Listing.

Special creations and redemptions

Apart from in-kind creation and in-kind redemption of Units through the Participating Dealers, the Manager may also facilitate cash subscriptions and cash redemptions and in-kind creations and in-kind redemptions of Units by the Feeder Funds. The minimum sizes for in-kind creations and in-kind redemptions of Units through Participating Dealers described above do not apply to such special creations and redemptions. However, such transactions will be subject to the same Dealing Deadlines as applicable to other in-kind creations and in-kind redemptions.

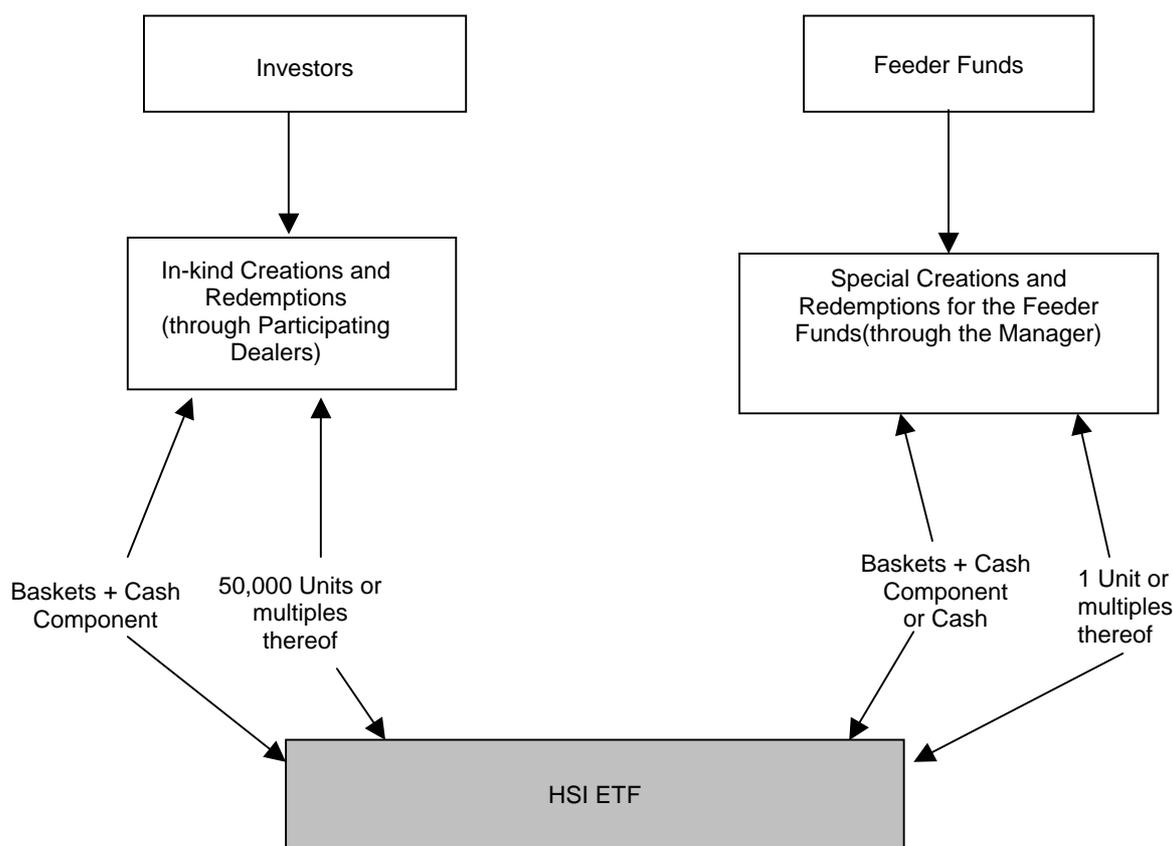
Units issued Before Listing for the Feeder Funds will be registered in the name of The Hongkong and Shanghai Banking Corporation Limited on the register of the HSI ETF. The Hongkong and Shanghai Banking Corporation Limited will deposit such Units with CCASS on the CCASS Settlement Day immediately before the Listing Date. Once deposited with CCASS, such Units will be registered in the name of HKSCC Nominees on the register of the HSI ETF. Such Units shall not be transferred until After Listing.

The ownership of all Units is determined by the register of the HSI ETF.

Redemption proceeds will be paid to the Feeder Funds normally within two business days following receipt of a correctly completed redemption application, but in any case not later than one month.

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The diagram below illustrates the subscription and redemption of Units during the Before Listing period:



Except for Units applied through in-kind creations which are in the respective CCASS Participant accounts in CCASS and registered in the name of HKSCC Nominees, all other Units created and issued through cash and in-kind subscriptions through the Manager (and not then redeemed) will be deposited with CCASS and transferred to and registered in the name of HKSCC Nominees on the CCASS Settlement Day before the Listing Date. Investors can start to trade their Units on the SEHK on and after the Listing Date.

After Listing Period

The After Listing phase commences on the Listing Date and continues until the HSI ETF is terminated. Dealings in the Units on the SEHK are expected to commence on 21 September 2004, but not later than 31 December 2004.

You may

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

Purchase and sale of Units on the SEHK

After Listing, you 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, you 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 fees payable by investors in secondary market trading.

In-kind creations and in-kind redemptions

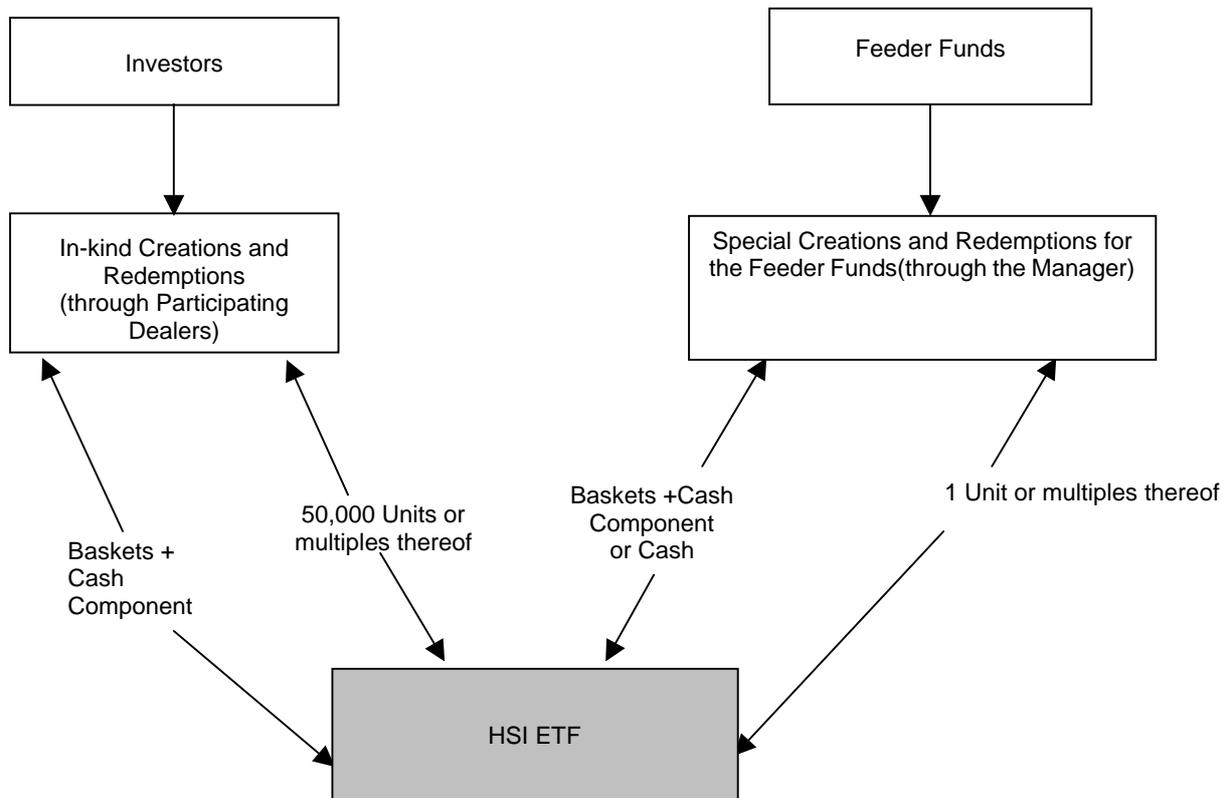
After Listing, Units will continue to be created and redeemed pursuant to in-kind creation and in-kind redemption based on NAV per Unit through Participating Dealers in a minimum number of 50,000 Units (and multiples thereof). The operational procedure for in-kind creation and in-kind redemption will remain the same After Listing as Before Listing.

Special creations and redemptions

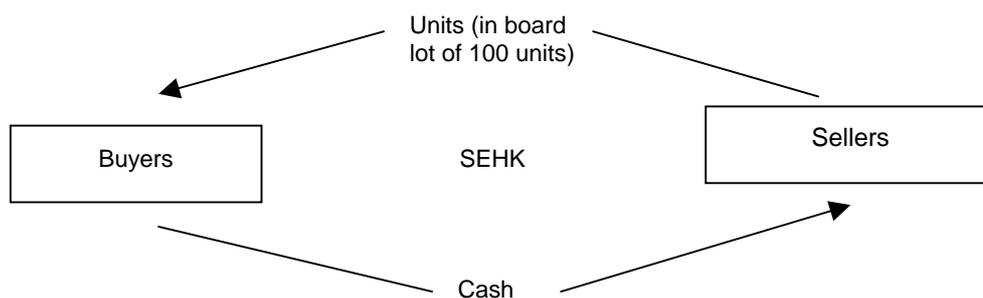
After Listing, the Manager may continue to facilitate cash subscription and cash redemption and in-kind creation and in-kind redemption of Units based on NAV per Unit by the Feeder Funds. However, such transactions will be subject to the Dealing Deadline on the relevant Dealing Day.

The diagrams below illustrate the subscription and redemption of Units and trading of Units After Listing:

(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.

After Listing, all Units will be registered in the name of HKSCC Nominees Limited 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 Offering and Trading Methods of Units and Related Fees

Before Listing

<u>Different Offering Methods of Units</u>	<u>Minimum Number of Units (multiple of)</u>	<u>Channel</u>	<u>Available to</u>	<u>Consideration, Fees and Charges</u> ¹
In-kind Creation and Redemption	50,000	Through Participating Dealers	Any investor satisfying the minimum unit requirements	Basket Cash Component Transaction Fee Other Fees & Charges (payable to HKSCC and HKCAS)
Special Creation and Redemption	1	Through the Manager	Only Feeder Funds	Basket + Cash Component (in-kind) or Issue Price (in-cash)

¹ For details, please see the section entitled "Fees and Charges payable by Investors".

After Listing

<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</u> ¹
Purchase and sale in cash through brokers on the SEHK (secondary market)	board lot of 100	On the SEHK	Any investor 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	Any investor satisfying the minimum unit requirements	Basket Cash Component Transaction Fee Other Fees & Charges (payable to HKSCC and HKCAS)
Special Creation and Redemption	1	Through the Manager	Only Feeder Funds	Basket + Cash Component (in-kind) or Issue Price (in-cash)

¹ For details, please see the section entitled "Fees and Charges payable by Investors".

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.

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 and SEHK's website 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 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 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 After Listing 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 (as of 1 February 2005)".

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 and via 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 and via 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 will bear 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 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.

The HSI ETF will bear up to HK\$1 million of the costs of establishing the HSI ETF and will share a proportion of the establishment fees of up to HK\$300,000 in respect of the Index Funds Series II and such costs will be amortised in the accounts of the HSI ETF for the period from inception until 31 December 2005.

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 details of the amount of fees currently payable, please see Appendix 1 "Current Fees and Charges (as of 1 February 2005)".

After Listing in respect of dealings in the Units, investors will be 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.

Dividend Policy

All of the income earned by the HSI ETF will, at the discretion of the Manager, be distributed by way of semi-annual cash dividends (if any) and details of dividend declaration dates, dividend amounts, ex-dividend dates and dividend payment dates shall be published on www.hangseng.com/etf and via the SEHK's website www.hkex.com.hk.

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 sent to unitholders within four months of the end of each financial year. The first such report and account will be for the period from the inception of the HSI ETF until 31 December 2004.

The semi-annual unaudited financial reports and accounts will also be sent to registered holders of Units in the HSI ETF within two months of the period which they cover. The first semi-annual unaudited financial report and accounts will be for the period from the inception of the HSI ETF until 30 June 2005.

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

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 (and a hyperlink from SEHK's website www.hkex.com.hk is also available). You should regularly review such information. Such information will include:

- this offering document, as it may be updated from time to time;
- the latest semi-annual and annual financial reports of the 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 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.

Real-time Trading Information

After Listing, information on the bid/ask price, queuing display, the previous day's closing NAV and the intraday estimated NAV (or RUPV) in respect of Units will be disclosed on a real time basis on the information pages of the SEHK.

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 Reuters, Bloomberg, Moneyline Telerate and on 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 responsibility to obtain the current Index information via the www.hsi.com.hk website.

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.

The Manager is a wholly-owned subsidiary of Hang Seng Bank Limited (**Hang Seng Bank**) and is the investment arm of its parent. The Manager provides investment management services to Hang Seng Bank and Hang Seng Bank's customers and has extensive experience in managing index-tracking funds, retirement funds, institutional accounts and private client portfolios.

Founded in 1933, Hang Seng Bank is a principal member of the HSBC group of companies and the second largest listed bank in Hong Kong in terms of market capitalisation which operates over 160 branches and automated banking centres in Hong Kong; branches in Guangzhou, Shanghai, Shenzhen, Fuzhou and Nanjing; and has representative offices in Beijing, Xiamen and Taipei. With consolidated assets of HK\$503 billion as at 31 December 2003, Hang Seng Bank reported a profit attributable to shareholders of HK\$9.5 billion for the year ended 31 December 2003.

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 American International Assurance 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.

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. Subject to applicable regulatory requirements, the Manager intends to ensure that there is at least one market maker for the HSI ETF on the Listing Date. 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.

Hang Seng Data Services Limited

Hang Seng Data Services Limited 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 HSI Services Limited, which manages and compiles the Index and is the index provider to the HSI ETF. Additional information about HSI Services Limited is available at www.hsi.com.hk.

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 deal with the HSI ETF as principal. Such transactions will only be made with the prior written consent of the Trustee and such transactions will be disclosed in the HSI ETF's audited annual report.

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, HSI Services Limited, and the index proprietor, Hang Seng Data Services Limited 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 manager of the Feeder Funds.

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 at the date of this offering document.

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 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.

Taxes and Duties Payable by Investors

You should consult your professional advisers with respect to the consequences of acquiring, holding, redeeming, transferring or selling Units, including 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. Accordingly, there can be no guarantee that the tax position prevailing at the time you invest will endure indefinitely.

Profits Tax

Hong Kong profits tax is not payable by the investors (other than investors carrying on a trade, profession or business of investing in securities in Hong Kong) on any gains or profits made on the sale, redemption or other disposal of the Units and on any distributions made by the HSI ETF.

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 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.

Estate Duty

Units will form part of the Hong Kong estate of a deceased investor for the purposes of Hong Kong estate duty.

Trust Deed

The Trust was established under Hong Kong law by the Trust Deed made between the Manager, the Trustee and the Index Proprietor. All investors are entitled to the benefit of, are bound by and are deemed to have notice of, the provisions of the Trust Deed. In the event of any inconsistency between any of the provisions of this offering document and those of the Trust Deed or Participation Agreement, the provisions of the Trust Deed or 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 consult the terms of the Trust Deed.

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 and via the SEHK's website www.hkex.com.hk. In all other cases, as required by the SFC, notices will be sent to investors by post to their mailing address or, if approved by the SFC and agreed with the relevant investors, by electronic mail, electronic publication or other electronic means.

Meetings of Investors

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

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

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

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

Responsibility Statement

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

Termination of the 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 or if they are not listed on the SEHK on the Listing Date.

Appendix 1 – Current Fees and Charges (as of 1 February 2005)

(1) Fees and Expenses Payable by the HSI ETF

Management Fee	0.05% per annum may be increased up to a maximum of 1% per annum without prior notice to unitholders
Trustee Fee	0.05% per annum may be increased up to a maximum of 0.15% per annum without prior notice to 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 and the Trust Deed, etc. Please refer to the section entitled “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.

Total Aggregated Value Transacted Daily	Conversion Agent's Fee
HK\$1 to HK\$2,000,000	HK\$5,000
HK\$2,000,001 to HK\$5,000,000	HK\$8,000
HK\$5,000,001 to HK\$10,000,000	HK\$10,000
Over HK\$10,000,000	HK\$12,000

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

Brokerage	Market rates
SFC Transaction levy	0.005% of the price of the Units ⁽¹⁾
SFC Investor compensation levy	0.002% of the price of the Units ⁽²⁾
SEHK trading fee	0.005% of the price of the Units ⁽³⁾
Stamp duty	0.2% of the price of the Units ⁽⁴⁾

Notes:

- (1) An SFC transaction levy of 0.005% of the price of the Units is payable by each of the buyer and the seller alike.
- (2) An SFC investor compensation levy of 0.002% of the price of the Units is payable by each of the buyer and the seller alike.
- (3) An 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 is 0.2% of the price of the Units, one half of which is payable by the buyer and the other half is payable by the seller.

Appendix 2 – Information about the Hang Seng Index

The Hang Seng Index (**Index**) is an important indicator of the performance of the Hong Kong stock market. It comprises a representative sample of stocks quoted on The Stock Exchange of Hong Kong Limited (**SEHK**) which have high market value and liquidity. It is constructed to reproduce the performance of a hypothetical portfolio of such stocks, with an interest in each stock proportional to each stock's market value. It is updated on a 15-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 HSI Services Limited, a wholly-owned subsidiary of Hang Seng Bank Limited. The constituent stocks of the Index are selected after a rigorous process of detailed analysis and extensive external consultation and reflect the following considerations:-

- the market values and turnover of eligible companies;
- the need to ensure that the Index reflects the various sub-sectors within the market;
- the financial performance of the eligible companies.

Full market capitalisation weighting is adopted for calculation of the Index. The market capitalisation of each individual stock is calculated by multiplying the share price of the stock by the number of shares issued. More information can be obtained at website www.hsi.com.hk

The Index currently comprises 33 constituent stocks which are representative of the Hong Kong stock market. The aggregate market value of these stocks accounts for about 70% of the total market capitalisation of all stocks listed on the Main Board of SEHK

To better reflect the price movements of the major sectors of the Hong Kong stock market, four sub-indexes were introduced. The 33 constituent stocks are grouped under sectors of Finance, Utilities, Properties, and Commerce and Industry.

As at 31 January 2005, the respective weightings of four sectors of stocks comprising the Index are:

Sector of constituent stocks	Weighting (%)
Finance	43.06
Utilities	6.46
Properties	12.27
Commerce and Industry	38.21

As at 31 January 2005, the HSI Constituent Stocks were as follows:

SEHK Stock Code	Stock	Weighting in the Index (%)
5	HSBC Hldgs	33.70
941	China Mobile	11.26
13	Hutchison	7.08
11	Hang Seng Bank	4.72
16	SHK Prop	4.06
883	CNOOC	3.96
1	Cheung Kong	3.87
2388	BOC Hong Kong	3.55
2	CLP Hldgs	2.49
3	HK & China Gas	2.13
762	China Unicom	1.87
6	HK Electric	1.74
12	Henderson Land	1.57
66	MTR Corporation	1.54
4	Wharf (Hldgs)	1.44
19	Swire Pacific 'A'	1.33
330	Esprit Hldgs	1.26
1038	CKI Hldgs	1.23
267	CITIC Pacific	1.12
293	Cathay Pac Air	1.10
101	Hang Lung Prop	1.01
494	Li & Fung	0.88
1199	COSCO Pacific	0.83
23	Bank of E Asia	0.81
551	Yue Yuen Ind	0.77
144	China Mer Hldgs	0.77
97	Henderson Inv	0.73
179	Johnson Elec H	0.64
291	China Resources	0.57
20	Wheelock	0.56
8	PCCW	0.55
203	Denway Motors	0.50
992	Lenovo Group	0.37

Real-time updates of the Index can be obtained through the SEHK Teletext System, Reuters, Bloomberg, Moneyline Telerate and the website of HSI Services Limited at: www.hsi.com.hk. As for other important news of the Index, HSI Services Limited will make announcement through press release and at website www.hsi.com.hk.

Please note:

- The list of constituent stocks which comprise the Index is reviewed by HSI Services Limited on a quarterly basis. The composition of the Index may change and be substituted with other companies as determined by HSI Services Limited 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 HSI Services Limited and Hang Seng Data Services Limited (**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 HSI Services Limited and HSDS or (except in cases of their wilful misconduct, bad faith or dishonesty) in respect of or in connection with the trading in the Fund, 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. The Manager will also indemnify HSI Services Limited 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 Fund's assets in respect of any claims made against it including those in relation to the license agreement provided that such losses are not due to the negligence, default, breach of duty or trust on the part of the Manager, this may result in a decrease in the Net Asset Value of the Fund.

Disclaimer

The Index is published and compiled by HSI Services Limited pursuant to a licence from Hang Seng Data Services Limited. The mark(s) and name(s) of the Index are proprietary to Hang Seng Data Services Limited.

No responsibility or liability is accepted by HSI Services Limited or Hang Seng Data Services Limited in respect of the use of and/or reference to the Index by the Manager in connection with the HSI ETF, or for any inaccuracies, omissions, mistakes or errors of HSI Services Limited in the computation of the Index or for any economic or other loss which may be directly or indirectly sustained by any broker or holder of the HSI ETF or any other person dealing with the HSI ETF as a result thereof and no claims, actions or legal proceedings may be brought against HSI Services 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. The circumstances that may affect the accuracy and completeness of the Index include the malfunctioning of the SEHK software system.

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 HSI Services 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 HSI Services Limited and/or Hang Seng Data Services Limited and must not be construed to have created such relationship.

HSI Services Limited and Hang Seng Data Services Limited have agreed to the use of, and reference to, the Index by the Manager in connection with the HSI ETF, but neither HSI Services Limited nor Hang Seng Data Services Limited warrants or represents or guarantees to any broker or holder of the HSI ETF or any other person the accuracy or completeness of the Index and its computation or any information related thereto and no warranty or representation or guarantee of any kind whatsoever relating to the Index is given or may be implied.

The process and basis of computation and compilation of the Index and any of the related formula or formulae, constituent stocks and factors may at any time be changed or altered by HSI Services Limited without notice.

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.

Administrator	any person or persons to whom the Trustee delegates certain of its administrative duties in respect of the HSI ETF
After Listing	the period which commences on the Listing Date and continues until the HSI ETF is terminated
Application Cancellation Fee	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
Application Unit	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
Authorised Fund	a Collective Investment Scheme that is authorised by the SFC pursuant to Section 104(1) of the Securities and Futures Ordinance
Basket	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
Before Listing	the period from 9:15 a.m. on 13 September 2004 until 4:15 p.m. on the Dealing Day before the Listing Date
Cash Component	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
CCASS	the Central Clearing and Settlement System established and operated by HKSCC
CCASS Participant	a participant in CCASS
CCASS Settlement Day	a settlement day as determined by HKSCC for CCASS
Collective Investment Scheme	has the same meaning as in the Securities and Futures Ordinance (Cap. 571) of Hong Kong
Conversion Agent	HK Conversion Agency Services Limited
Dealing Day	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

Dealing Deadline	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 Funds) , 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
Delegation Agreement	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
Delegation Letter	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
Delivery Date	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
ETF	an exchange traded fund
Extension Fee	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
Feeder Funds	the Hang Seng Index Tracking Fund and, subject to further notice and SFC prior approval, the Hang Seng Index Fund
Hang Seng Index Fund	a SFC authorised fund which is managed by the Manager and with substantially the same investment objective as the HSI ETF
Hang Seng Index Tracking Fund	a SFC authorised fund investing solely in the HSI ETF, also approved by the Mandatory Provident Fund Schemes Authority, managed by the Manager and a constituent fund of the following four schemes Hang Seng Mandatory Provident Fund - Supertrust, Hang Seng Mandatory Provident Fund - Supertrust Plus, HSBC Mandatory Provident Fund - Supertrust and HSBC Mandatory Provident Fund - Supertrust Plus
HKCAS	HK Conversion Agency Services Limited
HKSCC	Hong Kong Securities Clearing Company Limited
HKSCC Nominees	HKSCC Nominees Limited or such other nominee company as may be used by HKSCC from time to time
HSI Constituent Stocks	the constituent stocks of the Index
Index	the Hang Seng Index
Index Proprietor	Hang Seng Data Services Limited, the owner of the mark and name of the Index against which the HSI ETF benchmarks its investments

Index Provider	HSI Services Limited, the person responsible for managing and compiling the Index against which the HSI ETF benchmarks its investments
Index Share(s)	the constituent stock(s) of a stock index
Index Funds Series II	the Hang Seng Investment Index Funds Series II
Issue Price	the price at which Units will be issued, as more fully described in "Calculation of Issue Price and Redemption Price"
Listing Date	a date, which is expected to be on 21 September 2004 but not later than 31 December 2004, on which dealings in the Units commence on the SEHK
Manager	Hang Seng Investment Management Limited
Net Asset Value/NAV	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
Operating Guidelines	the Operating Guidelines governing Participating Dealers
Partial Delivery Request Fee	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
Participation Agreement	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
Participating Dealer	a broker or dealer who has entered into a Participation Agreement
Participating Dealer Application	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
Redemption Price	the price at which Units will be redeemed, as more fully described in "Calculation of Issue Price and Redemption Price"
Registrar	HSBC Provident Fund Trustee (Hong Kong) Limited
RUPV	Reference Underlying Portfolio Value (or intra-day estimated NAV)
Settlement Day	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
SEHK	The Stock Exchange of Hong Kong Limited
SFC	the Securities and Futures Commission
Special Application	a Special Creation Application and/or a Special Redemption Application

Special Creation Application	an application for the creation and issue of Units by a Feeder Fund
Special Redemption Application	an application for the redemption of Units by a Feeder Fund
Transaction Fee	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
Trust	the unit trust constituted by the Trust Deed
Trust Deed	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
Trustee	American International Assurance Company (Trustee) Limited
Unit	one undivided share of the HSI ETF
Unit Cancellation Fee	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
Valuation Point	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**
83 Des Voeux Road Central
Hong Kong

MANAGER AND LISTING AGENT

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

**DIRECTORS OF THE MANAGER
AND LISTING AGENT**

Cheung Ka Ming
Tse Raymond
Lee Pui Shan
Chu Yuen Yi, Joanna
Luk Sai Lung
Lau Chuen Chung
Ma Chan Chi

TRUSTEE

American International Assurance Company (Trustee) Limited
15th Floor, AIA Building
1 Stubbs Road
Hong Kong

REGISTRAR

HSBC Provident Fund Trustee (Hong Kong) Limited
6th Floor, Tower 1, HSBC Centre
1 Sham Mong Road, Kowloon
Hong Kong

CONVERSION AGENT

HK Conversion Agency Services Limited
2nd Floor, Vicwood Plaza
199 Des Voeux Road
Central
Hong Kong

LEGAL ADVISERS TO THE MANAGER

Johnson Stokes & Master
16-19th Floors, Prince's Building
10 Chater Road, Central
Hong Kong

AUDITORS

KPMG
8th Floor, Prince's Building
10 Chater Road, Central
Hong Kong

**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.

Dear Unitholders,

Amendment to the Hong Kong Offering Document

We, as the Manager of the Fund, hereby inform you that the Hong Kong Offering Document of the Fund has been revised with effect from 23 April 2007. The "Amendment to the Hong Kong Offering Document" is enclosed for your easy reference.

If you have any queries concerning the above, please contact us at (852) 2198 5911 or (852) 2198 3379 during office hours.

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

Hang Seng Investment Management Limited
15 May 2007

Hang Seng Investment Index Funds Series II
Hang Seng Index ETF (Stock Code: 2833)
(the “Fund”)

Amendment to the Hong Kong Offering Document

The following amendment has been made to the Hong Kong Offering Document of the Fund with effect from 23 April 2007. Accordingly, this amendment forms part of the Hong Kong Offering Document of the Fund which should be read as amended by this amendment.

The section “**DIRECTORS OF THE MANAGER AND LISTING AGENT**” on page 39 of the Hong Kong Offering Document of the Fund has been deleted in its entirety and replaced with the following:

“DIRECTORS OF THE MANAGER AND LISTING AGENT

Fung Hau Chung, Andrew

Lee Pui Shan

Chu Yuen Yi, Joanna

Luk Sai Lung

Lau Chuen Chung

Wong Tung Po, Mabel”

If you have any queries concerning the above, please contact us at (852) 2198 5911 or (852) 2198 3379 during office hours.

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

Hang Seng Investment Management Limited
15 May 2007

Hang Seng Investment Series

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.

Dear Unitholders,

Change in Calculation Methodology for the Hang Seng Index (the "Index")

We, as the Manager of Hang Seng Investment Series, hereby inform you that the Hong Kong Offering Document of the Fund will be revised with effect from 23 October 2006.

We have been notified by the compiler of the index, HSI Services Limited, that:

- Eligible H-share companies has entered the stock universe for the regular review for constituent stocks of the Index in August 2006;
- the compilation of the Index will be switched from a full market capitalization formula to a freefloat-adjusted market capitalization weighted formula with a 15% cap on individual stock weightings and such changes will be phased in over a period of 12 months from September 2006 to September 2007; and
- the number of constituent stocks of the Index will gradually increase starting from September 2006.

For details of the above changes, please refer to the Amendments to the Hong Kong Offering Document of the Fund.

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

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

Hang Seng Investment Management Limited
18 October 2006

Encl.: Amendments to the Hong Kong Offering Document of the Fund

Hang Seng Investment Series

Hang Seng Index ETF (stock code: 2833)

(the Fund”)

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 due to the recent changes in the calculation methodology of the Hang Seng Index. Accordingly, these amendments will form part of and should be read in conjunction with the Hong Kong Offering Document of the Fund with effect from 23 October 2006.

Amendments to Appendix 2 – Information about the Hang Seng Index

The 1st to 8th paragraphs under this Appendix will be deleted in its entirety and replaced by the following:

“The Hang Seng Index (the “Index”) is compiled and managed by HSI Services Limited, a wholly-owned subsidiary of Hang Seng Bank Limited. Constituent stocks of the Index are selected by a rigorous process of detailed analysis, supported by extensive external consultation.

The compilation of the Index will be switched from a full market capitalization weighted formula to a freefloat-adjusted market capitalization weighted formula with a 15% cap on individual stock weightings. The above changes will be phased in over a period of 12 months from September 2006 to September 2007 to ensure a smooth transition and to minimize any impact on the market.

As announced by HSI Services Limited on 10 February 2006, for mainland China enterprises that have a H-share listing in Hong Kong (“H-share companies”), those that meet one of the following conditions will be eligible for inclusion in the Index:

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 according to the relevant PRC rules and regulations, with the result that there is no unlisted share capital in the company; or
3. For new H-share IPOs, the company has no unlisted share capital.

Eligible H-share companies has entered the stock universe for the regular index review in August 2006 while China Construction Bank (stock code: 939) was the first H-share constituent stock (with effective from 11 September 2006) included in the Index.

The Index comprises 34 constituent stocks starting from 11 September 2006, which are representative of the Hong Kong stock market. While the number of constituent stocks of the Index will gradually increase, the number of non-H-share constituents will be maintained at 33. HSI Services Limited, the compiler of the Index, will make

further announcement with regard to the number of index constituents once the fifth H-share company joins the Index. More information can be obtained at website www.hsi.com.hk.

To better reflect the price movements of the major sectors of the Hong Kong stock market, four sub-indexes were introduced. The current 34 constituent stocks are grouped under sectors of Finance, Utilities, Properties and Commerce and Industry.

As at 29 September 2006, the respective weightings of the four sectors of stocks comprising the Index were:

Sector of Constituent Stocks	Weighting (%)
Finance	35.72
Utilities	5.20
Properties	10.79
Commerce and Industry	48.29

As at 29 September 2006, the respective weightings of the top 10 largest constituent stocks of the Index were as follows:

Stock Code	Stock Name	Weighting (%)
5	HSBC Holdings	25.00
941	China Mobile	19.49
13	Hutchison	5.22
883	CNOOC	5.00
16	SHK Properties	3.77
1	Cheung Kong	3.45
11	Hang Seng Bank	3.35
2388	BOC Hong Kong	3.29
2	CLP Holdings	2.02
939	China Construction Bank	2.02

Real-time update of the Index can be obtained through the SEHK Teletext System, Reuters, Bloomberg, Moneyline Telerate and the website of HSI Services Limited at: www.hsi.com.hk. As for other important news of the Index, HSI Services Limited will make announcement through press release and at their website www.hsi.com.hk.”

We accept responsibility for the accuracy of the contents of the amendments set out herein.

Hang Seng Investment Management Limited

18 October 2006