

Hang Seng Index ETF

(HKD Counter Stock Code: 02833)

(RMB Counter Stock Code: 82833)

Hong Kong Offering Document

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

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

The Stock Exchange of Hong Kong Limited, the Securities and Futures Commission in Hong Kong (the “**SFC**”) and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this document (including the Product Key Facts Statement for the HSI ETF), make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

The HSI ETF has been authorised as a collective investment scheme by the SFC. SFC authorisation is not a recommendation or endorsement of the HSI ETF nor does it guarantee the commercial merits of the HSI ETF or its performance. It does not mean the HSI ETF is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.

Hang Seng Investment Management Limited

23 December 2019

Selling and Holding Restrictions

Permission for the offering of any units (“Units”) of the HSI ETF in Hong Kong and the distribution of this offering document (including the Product Key Facts Statement for the HSI ETF) in Hong Kong has been obtained. Units may also be listed on other stock exchanges in the future. For the authorisation/listing status of the HSI ETF in the relevant jurisdiction(s), investors may contact the authorised agent(s) in the relevant jurisdiction(s) or the Manager.

The HKD traded Units and the RMB traded Units are listed on The Stock Exchange of Hong Kong Limited (the “SEHK”) and have been accepted as eligible securities by Hong Kong Securities Clearing Company Limited (“HKSCC”) for deposit, clearing and settlement in the Central Clearing and Settlement System (“CCASS”). Settlement of transactions between participants of the SEHK is required to take place in CCASS on the second CCASS settlement day after any trading. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

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

In particular:-

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

Units may not be offered or sold to, transferred to or acquired by any “U.S. Person” (a “**US Person**”) and may not be directly or indirectly offered or sold in the U.S. or for the benefit of a US Person. For the purposes of this restriction, the term US Person shall mean the following:

1. An individual who is deemed a resident of the U.S. under any U.S. law or regulation
2. An entity:
 - i. that is a corporation, partnership, limited liability company or other business entity:
 - a. that was created or organised under U.S. federal or state law including any non-U.S. agency or branch of such entity; or
 - b. where regardless of place of formation or organisation, was organised principally for passive investment (such as an investment company or fund or similar entity other than an employee benefit plan or employee pension scheme for the employees, officers, or principals of a non-U.S. entity having its principal place of business outside the United States);
 - and owned directly or indirectly by one or more US Persons, with respect to which such US Persons (unless defined as a Qualified Eligible Person under CFTC Regulation 4.7(a)) directly or indirectly hold in the aggregate 10% or greater beneficial interest; or
 - where a US Person is the general partner, managing member, managing director or other position with authority for directing the entity's activities; or
 - was formed by or for a US Person principally for the purpose of investing in securities not registered with the Securities and Exchange Commission (“**SEC**”); or
 - where more than 50% of its voting ownership interests or non-voting ownership interests are directly or indirectly owned by US Persons; or
 - c. that is any agency or branch of a non-U.S. entity located in the U.S.; or
 - d. has its principal place of business in the U.S.; or
 - ii. that is a trust created or organised under U.S. federal or state law or regardless of the place of creation or organisation:
 - a. where one or more US Persons has the authority to control all substantial decisions of the trust; or
 - b. where the administration of the trust or its formation documents are subject to the supervision of one or more U.S. courts; or
 - c. where any settlor, founder, trustee, or other person responsible for decisions related to the trust is a US Person; or

- iii. that is an estate of a deceased person regardless of where the person resided while alive where an executor or administrator is a US Person.
3. An employee benefit plan established and administered in accordance with the laws of the U.S.
4. A discretionary or non-discretionary investment account or similar account (other than an estate or trust) held by a non-U.S. or U.S. dealer or other fiduciary for the benefit or account of a US Person (as defined above).

Units may not, except pursuant to a relevant exemption, be acquired or owned by, or acquired with the assets of an ERISA Plan. An “ERISA Plan” is any retirement plan subject to Title 1 of the United States Employee Retirement Income Securities Act of 1974, as amended; or any individual retirement account or plan subject to section 4975 of the United States Internal Revenue Code of 1986, as amended.

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

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

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

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

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

In addition and without prejudice to the above, the Manager has the power to impose such restrictions as the Manager may think necessary for the purpose of ensuring that no Units are acquired or held by:

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

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

Enquiries and Complaints to the Manager

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

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

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

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Summary

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

Key Information in respect of the HSI ETF

Instrument Type	Exchange Traded Fund
Tracked Index	Hang Seng Index
Listing Date	21 September 2004
Exchange Listing in Hong Kong	The Stock Exchange of Hong Kong Limited (SEHK) – Main Board
Stock Code	HKD Counter – 02833 RMB Counter – 82833
Stock Short Name	HKD Counter – HS HSI ETF RMB Counter – HS HSI ETF-R
Dealing Commencement Date	HKD Counter – 21 September 2004 RMB Counter – 4 September 2015
Trading Board Lot Size	HKD Counter – 100 Units RMB Counter – 100 Units
Trading Currency	HKD Counter – Hong Kong dollars (HKD) RMB Counter – Renminbi (RMB)
Base Currency	Hong Kong dollars (HKD)
Dividend Policy	Quarterly (if any). The Manager currently intends to make declaration of distribution in March, June, September and December of each year. Dividends on all Units (RMB counter Units and HKD counter Units) will be in HKD only. ¹
Market price per Unit in Proportion to the Index	Approximately 1/1,000 ²
In-kind Creation/ Redemption (via Participating Dealers only)	Minimum 300,000 Units (or multiples thereof)
Cash Creation/ Redemption (via Participating Dealers only)	Minimum 300,000 Units (or multiples thereof)
Manager	Hang Seng Investment Management Limited
Trustee	AIA Company (Trustee) Limited
Registrar	HSBC Institutional Trust Services (Asia) Limited
Website	www.hangsenginvestment.com (this website has not been reviewed by the SFC)

¹ Both HKD traded Units and RMB traded Units will receive dividends in HKD only. In the event that the relevant Unitholder has no HKD account, the Unitholder may have to bear the fees and charges associated with the conversion of such dividend from HKD into RMB or any other currency. Unitholders should check with their brokers for arrangements concerning dividends and to consider the risk factor entitled “HKD Dividends Risk” below.

² 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.

What is the HSI ETF?

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

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

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

Trading of Units

Units in the HSI ETF are denominated in HKD. Investors may:

- (1) purchase and sell Units in the secondary market on the SEHK in board lot of 100 Units (or multiples thereof) either in HKD in respect of HKD traded Units or in RMB in respect of RMB traded Units under the Dual Counter;
- (2) apply for in-kind creation and redemption through authorised participants (the “**Participating Dealers**”) in a minimum number of 300,000 Units (or multiples thereof); and/or
- (3) apply for cash creation or redemption through Participating Dealers in a minimum number of 300,000 Units (or multiples thereof), subject to the Manager’s absolute discretion to decide whether to accept a cash creation application or cash redemption application.

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

Is an investment in the HSI ETF suitable for me?

The answer really depends on an assessment of your own circumstances. You should satisfy yourself that the HSI ETF is suitable for you having regard to your own circumstances, including your financial situation, investment experience and investment objectives, before making any decision to invest in the HSI ETF. Please note that the decision whether or not to invest remains with you. If you have any doubt as to whether or not the HSI ETF is suitable for you, you should consult your investment adviser and obtain independent professional advice.

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

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

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

What is the Investment Objective of the HSI ETF?

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

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

A stock index tracks the performance of a group of stocks (the “**Index Securities**”) 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 Securities 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 (the “**HSI Constituent Stocks**”), please see Appendix 2 “Information about the Hang Seng Index”.

What Investment Strategy is 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 Securities in substantially the same weightings (i.e. proportions) as these stocks have in the underlying index. When a stock ceases to be an Index Security rebalancing occurs which involves selling the outgoing Index Security and using the proceeds to acquire the incoming Index Security. 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 Securities selected by the fund manager using quantitative analytical models in a technique known as portfolio sampling. Under this technique, each stock is considered for inclusion in the fund based on its contribution to certain capitalisation, industry and fundamental investment characteristics. The fund manager seeks to construct the portfolio of the fund so that, in the aggregate, its capitalisation, industry and fundamental investment characteristics perform like those of its underlying index. The risk of using a representative sampling strategy is that it may not track the underlying index as closely as a replication strategy would allow, but a representative sampling strategy does provide for a close correlation to the underlying index in a cost-efficient manner.

What Strategy is Used for the HSI ETF?

The Manager primarily adopts 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 FDIs from which the return to the HSI ETF substantially reflects the performance of the Index. Such strategies and instruments are 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 the HSI ETF's investment restrictions (please see the section headed "Are there any Investment or other Restrictions Applicable to the HSI ETF?") thereby enabling the Manager to overweight the HSI Constituent Stocks relative to their respective weightings in the Index in accordance with the below limits.

Stock's weight in the Index	Maximum extra weighting to be allocated
Below 10%	4% ⁽¹⁾
10% - 30%	4%
30% - 50%	3%
Above 50%	2%

Note:

⁽¹⁾ Where the weighting of an HSI Constituent Stock is below 10% and if the total allocation to this HSI 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 financial reports whether the above limits have been complied in full.

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

Yes. The HSI ETF is a collective investment scheme authorised by the SFC for sale to investors in Hong Kong pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (an "**Authorised Fund**"), SFC authorisation is not a recommendation or endorsement of the HSI ETF nor does it guarantee the commercial merits of the HSI ETF or its performance. It does not mean the HSI ETF is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors. The SFC has the right to withdraw such authorisation of the HSI ETF if it no longer considers the Index is acceptable. In addition, as an Authorised Fund, the HSI ETF is not permitted to make certain investments or to engage in certain borrowing or lending activities. These investment, borrowing and lending restrictions are summarised below.

If any of the restrictions or limitations set out in this section are breached, the Manager will make it a priority objective to take all necessary steps within a reasonable period to remedy such breach, taking into account the Unitholders' interests.

The Trustee will take reasonable care to ensure compliance with the investment and borrowing limitations set out in the constitutive documents and the conditions under which the HSI ETF was authorised.

Investment restrictions

- (a) The aggregate value of the HSI ETF's investments in, or exposure to, any single entity through the following may not exceed 10% of the Net Asset Value of the HSI ETF (save as permitted by Chapter 8.6(h) and as varied by Chapter 8.6(h)(a) of the Code):
- (1) investments in securities issued by such entity;
 - (2) exposure to such entity through underlying assets of FDI; and
 - (3) net counterparty exposure to such entity arising from transactions of over-the-counter FDIs.
- (b) Subject to (a) above and Chapter 7.28(c) of the Code and unless otherwise approved by the SFC, the aggregate value of the HSI ETF's investments in, or exposure to, entities within the same group through the following may not exceed 20% of the Net Asset Value of the HSI ETF:
- (1) investments in securities issued by such entities;
 - (2) exposure to such entities through underlying assets of FDIs; and
 - (3) net counterparty exposure to such entities arising from transactions of over-the-counter FDIs;

- (c) Unless otherwise approved by the SFC, the value of the HSI ETF's cash deposits made with the same entity or entities within the same group may not exceed 20% of the Net Asset Value of the HSI ETF, unless:
- (1) the cash is held before the launch of the HSI ETF and for a reasonable period thereafter prior to the initial subscription proceeds being fully invested; or
 - (2) the cash is proceeds from liquidation of investments prior to the merger or termination of the HSI ETF, whereby the placing of cash deposits with various financial institutions may not be in the best interest of investors; or
 - (3) the cash is proceeds received from subscriptions pending investments and held for the settlement of redemption and other payment obligations, whereby the placing of cash deposits with various financial institutions is unduly burdensome and the cash deposits arrangement would not compromise investors' interests;

For the purposes herein, "cash deposits" generally refer to those that are repayable on demand or have the right to be withdrawn by the HSI ETF and not referable to provision of property or services.

- (d) Ordinary shares issued by any single entity (other than Government and other Public Securities) held for the account of the HSI ETF, when aggregated with other holdings of ordinary shares issued by the same entity held for the account of all other sub-funds under the Trust collectively may not exceed 10% of the nominal amount of the ordinary shares issued by the entity.
- (e) Not more than 15% of the Net Asset Value of the HSI ETF may be invested in securities and other financial products or instruments that are neither listed, quoted nor dealt in on a stock exchange, over-the-counter market or other organised securities market which is open to the international public and on which such Securities are regularly traded.
- (f) Notwithstanding (a), (b), (d) and (e), where direct investment by the HSI ETF in a market is not in the best interests of investors, the HSI ETF may invest through a wholly-owned subsidiary company established solely for the purpose of making direct investments in such market. In this case:
- (1) the underlying investments of the subsidiary, together with the direct investments made by the HSI ETF, must in aggregate comply with the requirements of Chapter 7 of the Code;
 - (2) any increase in the overall fees and charges directly or indirectly borne by the Unitholders or the HSI ETF as a result must be clearly disclosed in this offering document; and
 - (3) the HSI ETF must produce the reports required by the Code in a consolidated form to include the assets (including investment portfolio) and liabilities of the subsidiary company as part of those of the HSI ETF.
- (g) Notwithstanding (a), (b) and (d), not more than 30% of the Net Asset Value of the HSI ETF may be invested in Government and other Public Securities of the same issue.
- (h) Subject to (g), the HSI ETF may fully invest in Government and other Public Securities in at least six different issues. Subject to the approval of the SFC, the HSI ETF which has been authorised by the SFC as an index fund may exceed the 30% limit in (g) and may invest all of its assets in Government and other Public Securities in any number of different issues.
- (i) Unless otherwise approved by the SFC on a case-by-case basis taking into account the liquidity of the physical commodities concerned and availability of sufficient and appropriate additional safeguards where necessary, the HSI ETF may not invest in physical commodities.

(j) For the avoidance of doubt, exchange traded funds that are:

- (1) authorised by the SFC under Chapter 8.6 or Chapter 8.10 of the Code; or
- (2) listed and regularly traded on internationally recognised stock exchanges open to the public (nominal listing not accepted) and (i) the principal objective of which is to track, replicate or correspond to a financial index or benchmark, which complies with the applicable requirements under Chapter 8.6 of the Code; or (ii) the investment objective, policy, underlying investments and product features of which are substantially in line with or comparable with those set out under Chapter 8.10 of the Code,

may either be considered and treated as (x) listed securities for the purposes of and subject to the requirements in paragraphs (a), (b) and (d) above; or (y) collective investment schemes for the purposes of and subject to the requirements in paragraph (k) below. However, the investments in exchange traded funds shall be subject to paragraph (e) above and the relevant investment limits in exchange traded funds by the HSI ETF should be consistently applied and clearly disclosed in this offering document.

(k) Where the HSI ETF invests in shares or units of other collective investment schemes (“underlying schemes”):

- (1) the value of the HSI ETF’s investment in units or shares in underlying schemes which are non-eligible schemes (as determined by the SFC) and not authorised by the SFC may not in aggregate exceed 10% of the Net Asset Value of the HSI ETF; and
- (2) the HSI ETF may invest in one or more underlying schemes which are either schemes authorised by the SFC or eligible schemes (as determined by the SFC), but the value of the HSI ETF’s investment in units or shares in each such underlying scheme may not exceed 30% of the Net Asset Value of the HSI ETF, unless the underlying scheme is authorised by the SFC and its name and key investment information are disclosed in this offering document,

provided that in respect of (1) and (2) above:

- (i) the objective of each underlying scheme may not be to invest primarily in any investment prohibited by Chapter 7 of the Code, and where that underlying scheme’s objective is to invest primarily in investments restricted by Chapter 7 of the Code, such investments may not be in contravention of the relevant limitation prescribed by Chapter 7 of the Code. For the avoidance of doubt, the HSI ETF may invest in scheme(s) authorised by the SFC under Chapter 8 of the Code (except for hedge funds under Chapter 8.7 of the Code), eligible scheme(s) (as determined by the SFC) of which the net derivative exposure (as defined in the Code) does not exceed 100% of its total net asset value, and exchange traded funds satisfying the requirements in paragraph (j) above in compliance with paragraph (k)(1) and (k)(2);
 - (ii) where the underlying schemes are managed by the same management company as that of the HSI ETF that invests in them, or by other companies within the same group that the Manager belongs to, then paragraphs (a), (b), (d) and (e) above are also applicable to the investments of the underlying scheme;
 - (iii) the objective of the underlying schemes may not be to invest primarily in other collective investment scheme(s);
- (3) where an investment is made in any underlying scheme(s) managed by the Manager or any of its Connected Persons, all initial charges and redemption charges on the underlying scheme(s) must be waived; and
 - (4) the Manager or any person acting on behalf of the HSI ETF or the Manager may not obtain a rebate on any fees or charges levied by an underlying scheme or the management company of an underlying scheme, or any quantifiable monetary benefits in connection with investments in any underlying scheme.

- (l) The HSI ETF may invest 90% or more of its total Net Asset Value in a single collective investment scheme and may be authorised as a feeder fund by the SFC. In this case:
- (1) the underlying scheme (“**master fund**”) must be authorised by the SFC;
 - (2) the offering document must state that:
 - (i) the HSI ETF is a feeder fund into the master fund;
 - (ii) for the purpose of complying with the investment restrictions, the HSI ETF and its master fund will be deemed a single entity;
 - (iii) the HSI ETF’s annual report must include the investment portfolio of the master fund as at the financial year end date; and
 - (iv) the aggregate amount of all the fees and charges of the HSI ETF and its underlying master fund must be clearly disclosed;
 - (3) unless otherwise approved by the SFC, no increase in the overall total of initial charges, redemption charges, Manager’s annual fee, or any other costs and charges payable to the Manager or any of its Connected Persons borne by the Unitholders or by the HSI ETF may result, if the master fund in which the HSI ETF invests is managed by the Manager or by its Connected Person; and
 - (4) notwithstanding paragraph (k)(iii) above, the master fund may invest in other collective investment scheme(s) subject to the investment restrictions as set out in paragraphs (k)(1) and (k)(2).
- (m) if the name of the HSI ETF indicates a particular objective, investment strategy, geographic region or market, the HSI ETF should, under normal market circumstances, invest at least 70% of its Net Asset Value in securities and other investments to reflect the particular objective, investment strategy or geographic region or market which the HSI ETF represents.

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 the directors and officers of the Manager collectively 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 and interests in real estate investment trusts (REITs)) In the case of investments in such shares and REITs, they shall comply with the investment limits as set out in Chapters 7.1, 7.1A, 7.2, 7.3 and 7.11 of the Code, where applicable. For the avoidance of doubt, where investments are made in listed REITs, Chapter 7.1, 7.1A and 7.2 of the Code apply and where investments are made in unlisted REITs, which are either companies or collective investment schemes, then Chapters 7.3 and 7.11 of the Code apply respectively;
- (C) make short sales if as a result the HSI ETF would be required to deliver securities exceeding 10% of the Net Asset Value of the HSI ETF (and for this purpose securities sold short must be actively traded on a market where short selling is permitted). For the avoidance of doubt, the HSI ETF is prohibited to carry out any naked or uncovered short sale of securities and short selling should be carried out in accordance with all applicable laws and regulations;
- (D) lend or make a loan out of the assets of the HSI ETF, except to the extent that the acquisition of bonds or the making of a deposit (within the applicable investment restrictions) might constitute a loan;

- (E) subject to (e), assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person, save and except for reverse repurchase transactions in compliance with the Code;
- (F) enter into any obligation in respect of the HSI ETF or acquire any asset or engage in any transaction for the account of the HSI ETF which involves the assumption of any liability which is unlimited. For the avoidance of doubt, the liability of Unitholders is limited to their investment in the HSI ETF; or
- (G) apply any part of the HSI ETF in the acquisition of any investments which are for the time being nil paid or partly paid in respect of which a call is due to be made for any sum unpaid on such investments unless such call could be met in full out of cash or near cash forming part of the HSI ETF whereby such amount of cash or near cash has not been segregated to cover a future or contingent commitment arising from transaction in FDIs for the purposes of Chapter 7.29 and 7.30 of the Code.

Note: The investment restrictions set out above apply to the HSI ETF, subject to the following: A collective investment scheme authorised by the SFC under the Code is usually restricted from making investments which would result in the value of that collective investment scheme's holdings of the securities of any single entity exceeding 10% of the collective investment scheme's total net asset value. HSI ETF is authorised under Chapter 8.6 of the Code as an index tracking ETF, given the investment objective of the HSI ETF and the nature of the Index, the HSI ETF is allowed under Chapter 8.6(h) of the Code to hold investments in constituent securities of any single entity exceeding 10% of the HSI ETF's Net Asset Value if such constituent securities account for more than 10% 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 the weightings are exceeded as a result of changes in the composition of the Index and the excess is only transitional and temporary in nature. However, the Manager may cause the HSI ETF to deviate from the Index weighting (in pursuing a representative sampling strategy) under Chapter 8.6(h)(a) of the Code on the condition (i) the representative sampling strategy must be clearly disclosed in this offering document, (ii) the excess of weightings of the constituent securities held by the HSI ETF over the weightings in the Index must be caused by the implementation of the representative sampling strategy and (iii) the maximum deviation from the Index weighting of any constituent will not exceed the percentage as determined by the Manager after consultation with the SFC, as disclosed in the offering document. In determining this limit, the HSI ETF must consider the characteristics of the underlying constituent securities, their weightings and the investment objectives of the Index and any other suitable factors. The Manager shall report to the SFC on a timely basis if there is any non-compliance with this limit. The annual and interim financial statements of the HSI ETF shall also disclose whether or not such limit has been complied with during such period and account for any non-compliance in those reports.

Borrowing restrictions

The HSI ETF is permitted to borrow an amount up to a maximum of 10% of its Net Asset Value 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.

Securities financing transactions

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

Financial Derivative Instruments

Subject always to the provisions of the Trust Deed and the Code, the Manager may on behalf of the HSI ETF enter into any transactions in relation to swaps or other FDI.

Where the HSI ETF acquires FDIs for hedging purpose, such FDIs acquired by the HSI ETF shall meet all of the following criteria:

- (a) they are not aimed at generating any investment return;
- (b) they are solely intended for the purpose of limiting, offsetting or eliminating the probability of loss or risks arising from the investments being hedged;
- (c) although they may not necessarily reference to the same underlying assets, they should relate to the same asset class with high correlation in terms of risks and return, and involve taking opposite positions, in respect of the investments being hedged; and
- (d) they exhibit price movements with high negative correlation with the investments being hedged under normal market conditions.

Hedging arrangements should be adjusted or re-positioned where necessary and with due consideration on the fees, expenses and costs to enable the HSI ETF to meet its hedging objective in stressed or extreme market conditions.

The HSI ETF may acquire FDIs for non-hedging purposes ("**investment purposes**"), subject to the limit that the HSI ETF's net exposure relating to these FDIs ("**net derivative exposure**") does not exceed 50% of its total Net Asset Value (unless otherwise approved by the SFC pursuant to Chapter 8 of the Code). For the avoidance of doubt:

- (a) for the purpose of calculating net derivative exposure, the positions of FDIs acquired by the HSI ETF for investment purposes are converted into the equivalent position in the underlying assets of the FDIs, taking into account the prevailing market value of the underlying assets, the counterparty risk, future market movements and the time available to liquidate the positions;
- (b) the net derivative exposure should be calculated in accordance with the requirements and guidance issued by the SFC which may be updated from time to time; and
- (c) FDIs acquired for hedging purposes will not be counted towards the 50% limit referred to in this paragraph so long as there is no residual derivative exposure arising from such hedging arrangement.

Subject to the above, the HSI ETF may invest in FDIs provided that the exposure to the underlying assets of the FDI, together with the other investments of the HSI ETF, may not in aggregate exceed the corresponding investment restrictions or limitations applicable to such underlying assets and investments as set out in the relevant provisions of Chapter 7 of the Code.

For the avoidance of doubt, restrictions and limitations on counterparty as set out in paragraphs (a) and (b) under the section entitled "Investment restrictions" above and paragraph (c) below will not apply to FDIs that are (i) transacted on an exchange where the clearing house performs a central counterparty role; and (ii) marked-to-market daily in the valuation of their FDI positions and subject to margining requirements at least on a daily basis.

The FDIs invested by the HSI ETF shall be either listed or quoted on a stock exchange, or dealt in over-the-counter market and comply with the following provisions:

- (a) the underlying assets consist solely of shares in companies, debt securities, money market instruments, units/shares of collective investment schemes, deposits with substantial financial institutions, Government and other Public Securities, highly-liquid physical commodities (including gold, silver, platinum and crude oil), financial indices, interest rates, foreign exchange rates or currencies or other asset classes acceptable to the SFC, in which the HSI ETF may invest according to its investment objectives and policies. Where the HSI ETF invests in index-based FDIs, the underlying assets of such FDIs are not required to be aggregated for the purposes of the investment restrictions or limitations set out in Chapters 7.1, 7.1A, 7.1B and 7.4 provided that the index is in compliance with the requirements under Chapter 8.6(e) of the Code;
- (b) the counterparties to over-the-counter FDI transactions or their guarantors are substantial financial institutions or such other entity acceptable to the SFC;
- (c) subject to paragraphs (a) and (b) under the section entitled "Investment Restrictions" above, the net counterparty exposure to a single entity arising from transactions of the over-the-counter FDIs may not exceed 10% of the Net Asset Value of the HSI ETF. Exposure of the HSI ETF to a counterparty of over-the-counter FDIs may be lowered by the collateral received (if applicable) by the HSI ETF and shall be calculated with reference to the value of collateral and positive marked-to-market value of the over-the-counter FDIs with that counterparty, if applicable; and
- (d) the valuation of the FDIs is marked-to-market daily, subject to regular, reliable and verifiable valuation conducted by the Manager or the Trustee or their nominee(s), agent(s) or delegate(s) independent of the issuer of the FDIs through such measures as may be established from time to time. The FDIs can be sold, liquidated or closed by an offsetting transaction at any time at their fair value at the initiative of the HSI ETF. Further, the calculation agent/fund administrator should be adequately equipped with the necessary resources to conduct independent marked-to-market valuation and to verify the valuation of the FDIs on a regular basis

The HSI ETF shall at all times be capable of meeting all its payment and delivery obligations incurred under transactions in FDIs (whether for hedging or for investment purposes). The Manager shall, as part of its risk management process, monitor to ensure that the transactions in FDIs are adequately covered on an ongoing basis. A transaction in FDIs which gives rise to a future commitment or contingent commitment of the HSI ETF should also be covered as follows:

- in the case of FDI transactions which will, or may at the HSI ETF's discretion, be cash settled, the HSI ETF should at all times hold sufficient assets that can be liquidated within a short timeframe to meet the payment obligation; and
- in the case of FDI transactions which will, or may at the counterparty's discretion, require physical delivery of the underlying assets, the HSI ETF should hold the underlying assets in sufficient quantity at all times to meet the delivery obligation. If the Manager considers the underlying assets to be liquid and tradable, the HSI ETF may hold other alternative assets in sufficient quantity as cover, provided that such assets may be readily converted into the underlying assets at any time to meet the delivery obligation provided further that the HSI ETF shall apply safeguard measures such as to apply haircut where appropriate to ensure that such alternative assets held are sufficient to meet its future obligations..

The above policies relating to FDIs apply to financial instruments which embed financial derivatives as well.

Although FDIs may be used (as aforesaid), they will not be used extensively for investment purpose.

Has the HSI ETF adopted any Dual Counter arrangement?

With effect from 4 September 2015, the Manager has arranged for the Units to be available for trading on the secondary market on the SEHK under a Dual Counter arrangement. There will be two trading counters on the

SEHK (i.e. HKD counter and RMB counter), Units traded in HKD counter will be settled in HKD and Units traded in RMB counter will be settled in RMB. Apart from settlement in different currencies, the trading prices of Units in the two counters may be different as the HKD counter and RMB counter are two distinct and separate markets.

In the primary market, under the Dual Counter arrangement, a Participating Dealer may subject to arrangement with the Manager elect to CCASS to have Units which it creates deposited in either HKD counter or RMB counter. Both HKD traded Units and RMB traded Units may be redeemed by way of a Redemption Application through a Participating Dealer. However, the cash creation of new Units in a special creation application and cash redemption of Units in a special redemption application are in HKD only. Furthermore, the Units created in a special creation application can be deposited in HKD counter only and only Units in the HKD counter can be withdrawn directly in a special redemption application.

Units traded on both counters are of the same class and all Unitholders of both counters are treated equally. The two counters will have different stock codes, different stock short names and different ISIN numbers as follows: HKD counter and traded Units have a SEHK stock code 02833 and a stock short name "HS HSI ETF" whilst the RMB counter and traded Units have a SEHK stock code 82833 and a stock short name "HS HSI ETF-R". The ISIN for HKD counter and traded Units is HK2833027330 and the ISIN number for RMB counter and traded Units is HK0000252970.

Normally, investors can buy and sell Units traded in the same counter or alternatively buy in one counter and sell in the other counter provided their brokers provide both HKD and RMB trading services at the same time and offer inter-counter transfer services to support Dual Counter trading. Inter-counter buy and sell is permissible even if the trades take place within the same trading day provided the relevant broker can provide such a service. However, investors should note that the trading price of Units traded in the HKD counter and that of RMB counter may be different and may not always maintain a close relationship depending on factors such as market demand and supply and liquidity in each counter.

More information with regard to the Dual Counter is available in the frequently asked questions in respect of the Dual Counter published on HKEx's website http://www.hkex.com.hk/eng/market/sec_tradinfra/rmbequity/faqrmbequity.htm (this website has not been reviewed by the SFC).

Investors should consult their brokers if they have any questions concerning fees, timing, procedures and the operation of the Dual Counter, including inter-counter transfers. Investors' attention is also drawn to the risk factor below entitled "Dual Counter Risks".

What is Renminbi Equity Trading Support Facility?

The Renminbi Equity Trading Support Facility ("TSF") was launched on 24 October 2011 by HKEx to provide a facility to enable investors who wish to buy RMB-traded shares in the secondary market with HKD if they do not have sufficient RMB or have difficulty in obtaining RMB from other channels. With effect from 6 August 2012, the coverage of TSF was extended and the HSI ETF is eligible for the TSF. As such the TSF is currently available to investors who wish to invest in the HSI ETF by purchasing Units trading in RMB on the SEHK. Investors should consult their financial advisers if they have any questions concerning the TSF. More information with regard to the TSF is available on HKEx's website http://www.hkex.com.hk/eng/market/sec_tradinfra/TSF/TSF.htm (this website has not been reviewed by the SFC).

Are there any Special RMB Payment or Account Procedures?

Although the base currency of Units is HKD, Units in the RMB counter are available to be bought and sold on the secondary market in RMB. Investors should note that RMB is the only official currency of the PRC. While both onshore RMB ("CNY") and offshore RMB ("CNH") are the same currency, they are traded in different and separated markets. Since the two RMB markets operate independently where the flow between them is highly restricted, CNY and CNH are traded at different rates and their movement may not be in the same direction. Although there is a significant amount of RMB held offshore (i.e. outside the PRC), CNH cannot be freely remitted into the PRC and is subject to certain restrictions, and vice versa. As such, whilst CNH and CNY are both the same currency, certain special restrictions do apply to RMB outside the PRC. The liquidity and trading price of the Units may be adversely affected by the limited availability of, and restrictions applicable to, RMB outside the PRC.

If any investors wish to buy or sell Units in RMB on the secondary market, they should contact their brokers and they are reminded to confirm with their brokers in respect of Units traded in RMB such brokers' readiness for dealing and/or clearing transactions in RMB securities and to check other relevant information published by the SEHK regarding readiness of its participants for dealing in RMB securities from time to time. CCASS Investor Participants who wish to settle the payment in relation to their trades in the Units traded in RMB using their CCASS Investor Participant account should make sure that they have set up an RMB designated bank account with CCASS.

Investors intending to purchase Units traded in RMB from the secondary market should consult their brokers as to the RMB funding requirement and settlement method for such purchase. Investors may need to open and maintain securities dealing accounts with the broker first before any dealing in Units traded in either HKD or RMB can be effected.

Investors should ensure they have sufficient RMB to settle trades of Units traded in RMB. Investors should consult the banks for the account opening procedures as well as terms and conditions of the RMB bank account. Some banks may impose restrictions on their RMB cheque account and fund transfers to third party accounts. For non-bank financial institutions (e.g. brokers), however, such restriction may not be applicable and investors should consult their brokers as to the currency exchange service arrangement if required.

The transaction costs of dealings in the Units on the SEHK include the SEHK trading fee and SFC transaction levy. All these secondary trading related fees and charges will be collected in HKD and, in respect of Units traded in RMB, calculated based on an exchange rate as determined by the Hong Kong Monetary Authority on the date of the trade which will be published on HKEx's website by 11:00 a.m. or earlier on each trading day.

Investors should consult their own brokers or custodians as to how and in what currency the trading related fees and charges and brokerage commission should be paid by the investors.

Where payment in RMB is to be made by cheque investors should consult the bank at which their respective RMB bank accounts are opened in advance as to whether there are any specific requirements in relation to the issue of RMB cheques. In particular, investors should note that some banks have imposed an internal limit (usually RMB80,000) on the balance of RMB cheque account of their clients or the amount of cheques that their clients can issue in a day and such limit may affect an investor's arrangement of funding for purchase of Units traded in RMB.

When an individual investor opens an RMB bank account or settle RMB payments, he or she will be subject to a number of restrictions, including the daily maximum remittance amount to the PRC of RMB80,000, and that a remittance service is only available to an RMB deposit account-holder who remits from his or her RMB deposit account to the PRC and provided that the account name of the account in the PRC is identical with that of the RMB bank account with the bank in Hong Kong.

Please also refer to the Sub-section headed "General risks of investments associated with RMB currency" in the section headed "What are the Risks of Investing in the HSI ETF?" for further details.

What are the Risks of Investing in the HSI ETF?

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

Investors should carefully consider the risks involved in investing in the HSI ETF together with all other information included in this offering document and satisfy themselves that the HSI ETF is suitable for them having regard to their own circumstances, including their financial situation, investment experience and investment objectives before making an investment decision. Investors should note that the decision whether or not to invest remains with them. If investors have any doubt as to whether or not the HSI ETF is suitable for them, they should consult their investment adviser and obtain independent professional advice.

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

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

Many factors will affect the performance of the HSI ETF.

The HSI ETF's Net Asset Value will change based on changes in market conditions in response to other economic, political, monetary and financial developments. The HSI ETF's reaction to these developments will be affected by the types of securities in which the HSI ETF invests, the financial condition, industry and economic sector, and geographic location of an issuer, and the 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 the HSI ETF's investments. The HSI ETF's performance could depend heavily on the performance of that industry or group of industries and could be more volatile than the performance of less concentrated funds.

In addition, because the Manager may invest a significant percentage of the HSI ETF's assets in a single issuer, the 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 the 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.

Net Asset Value and price fluctuations

The Net Asset Value per Unit of the HSI ETF will generally fluctuate with changes in the Index. Intra-day highs and lows of the Index may be significantly different from its level at the end of the trading day. Units may be bought and sold in the secondary market through the SEHK at market prices which will fluctuate during the trading day. Although the market price of a Unit is expected to approximate its Net Asset Value, it is possible that the market price of a Unit and the Net Asset Value 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 Net Asset Value 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 Net Asset Value per Unit, which may be the time that you most want to sell your Units. In the case of suspension of creations and/or redemptions of Units, the Manager anticipates that there may be larger discounts or premiums as between the secondary market price of Units and the Net Asset Value per Unit.

Correlation to the Index and tracking error risk

No assurance can be given that the performance of the HSI ETF at any time will be an exact or identical replication of 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 cash creation applications and cash redemption applications, (iii) the investment strategy used by the Manager may not result in the HSI ETF holding all of the HSI Constituent Stocks in exactly the same weightings as those stocks have in the Index, (iv) of any adjustment made to the Net Asset Value per Unit which is considered to be an appropriate allowance to reflect Duties and Charges (such as stamp duties) which would be incurred if the investments of the HSI ETF were to be acquired or sold in certain circumstances as referred to in the section headed "Calculation of Issue Price and Redemption Price", (v) of timing differences associated with additions to and deletions from the Index when rebalancing occurs and (vi) the number of shares outstanding of the HSI Constituent Stocks may change from time to time. The use of sampling techniques or futures or other derivative positions may also affect the HSI ETF's ability, for a particular Dealing Day or otherwise, to achieve close correlation with the Index. The Manager will monitor and seek to manage such tracking error risk and to minimise tracking error.

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. Please refer to the section headed "Replacement of the Index" for details.

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 Net Asset Value per Unit (which may be higher or lower than the amount paid by the investors per Unit at the time of original investment) as of the date of liquidation as a result of the Manager having to liquidate all of the HSI ETF's investments.

If Units deposited with CCASS become non-eligible securities for deposit with CCASS, Units will be transferred out of CCASS to, and registered in the name of, the respective CCASS Participants through the Manager. CCASS and HKSCC Nominees Limited 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.

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

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

Absence of active trading market in the Units and liquidity risks

Although Units of the HSI ETF are listed for trading on the SEHK and one or more market makers have been appointed, there can be no assurance that an active or liquid trading market for such Units will develop or be maintained or that such market maker(s) will not cease to fulfil that role. In addition, if the underlying securities which comprise the HSI ETF's assets have limited trading markets, or if the spreads are wide, this may adversely affect the price of the Units and the ability of an investor to dispose of its Units at the desired price. There can be no assurance that Units will experience trading or pricing patterns similar to those of exchange traded funds which are

issued by investment companies in other jurisdictions or those traded on the SEHK which are based upon indices. If an investor needs to sell its Units at a time when no active market for them exists, the price it receives for its Units (assuming it is able to sell them) is likely to be lower than the price received if an active market did exist.

Further, the Units in the RMB counter are securities traded on the SEHK, and settled in CCASS, in RMB. Not all stockbrokers or custodians may be ready and able to carry out trading and settlement of the RMB traded Units. The limited availability of RMB outside the PRC may also affect the liquidity and trading price of the RMB traded Units.

Risk of suspension of trading

Investors and potential investors will not be able to buy, nor will investors be able to sell, Units on the SEHK during any period in which trading of the Units is suspended. The SEHK may suspend the trading of Units whenever the SEHK determines that it is appropriate in the interests of a fair and orderly market to protect investors. The creation and redemption of Units may also be suspended if the trading of Units is suspended.

Dual Counter risk

The SEHK's Dual Counter model in Hong Kong is relatively recent. The HSI ETF is an exchange traded fund with Dual Counter traded Units which means that Units are traded and settled in RMB under the RMB counter and traded and settled in HKD under the HKD counter. The nature of the Dual Counter for exchange traded funds may make investment in the Units riskier than in single counter units or shares of an SEHK listed issuer, for example where for some reason there is a settlement failure on an inter-counter transfer if the Units of one counter are delivered to CCASS at the last settlement on a trading day, leaving insufficient time to transfer the Units to the other counter for settlement on the same day.

In addition, where there is a suspension of the inter-counter transfers of Units between the HKD counter and the RMB counter due to, for example, operational or systems interruption, Unitholders will only be able to trade their Units in the currency of the relevant counter. Accordingly it should be noted that the inter-counter transfers may not always be available.

There is a risk that the market price on the SEHK of Units traded in HKD may deviate significantly from the market price on the SEHK of Units traded in RMB due to market liquidity, supply and demand in each counter and the exchange rate between the RMB and the HKD (in both the onshore and the offshore markets). The trading price of HKD traded Units or RMB traded Units is determined by market forces and so will not be the same as the trading price of Units multiplied by the prevailing rate of foreign exchange. Accordingly when selling Units traded in HKD or buying Units traded in HKD, an investor may receive less or pay more than the equivalent amount in RMB if the trade of the relevant Units is in RMB and vice versa. There can be no assurance that the price of Units in each counter will be equivalent.

Investors without RMB accounts may buy and sell HKD traded Units only. Such investors will not be able to buy or sell RMB traded Units.

It is possible that some brokers and CCASS Participants may not be familiar with and may not be able to (i) buy Units in one counter and to sell Units in the other, (ii) carry out inter-counter transfers of Units, or (iii) trade Units in both counters at the same time. In such a case another broker or CCASS Participant may need to be used. Accordingly this may inhibit or delay an investor dealing in both HKD traded and RMB traded Units and may mean investors may only be able to sell their Units in one currency. Investors are recommended to check the readiness of their brokers in respect of the Dual Counter trading and inter-counter transfer.

Concentration of the Index in certain sectors and companies

The finance sector and the property sector together account for more than half of the market weighting of the Index. Since a substantial amount of the total domestic lending by the banking sector is made for property development and investment and for the purchase of residential properties, the performance of the finance sector may be affected by the performance of the property sector. Property values and rental rates in Hong Kong have been cyclical. This cyclicity can adversely affect the performance, not only of the companies in the property sector but also the banking sector which makes a large portion of lending in connection with property. In addition, certain companies are given a larger 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.

Equity market risk

The HSI ETF's investments in equity securities including HSI Constituent Stocks are subject to general market risks, and the value of such investments may fluctuate due to various factors such as changes in investment sentiment, political and economic conditions and issuer-specific factors. 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 exchanges normally have the right to suspend or limit trading in any securities traded on the relevant exchanges under certain circumstances. A suspension or limitation on trading means liquidation of such securities is impossible or trading of such securities is limited during the relevant period and where the HSI ETF invests in these securities, the HSI ETF may be subject to losses.

Liquidity risk

In respect of the underlying investments of the HSI ETF, liquidity risk exists. It is possible that a particular investment or position cannot be easily unwound or offset in a timely manner and/or at a reasonable price due to insufficient market depth or market disruption. Liquid investments may become illiquid or less liquid in particular during period of market turmoil or economic uncertainty. The liquidity of the underlying investments of the HSI ETF would have an impact on the ability of the HSI ETF to meet the redemption applications of its Unitholders. Absence of liquidity of the underlying investments may have an adverse impact on the HSI ETF and the value of its underlying investments.

In addition, securities exchanges normally have the right to suspend or limit trading in any securities traded on the relevant exchanges under certain circumstances. A suspension or limitation on trading means liquidation of such securities is impossible or trading such securities is limited during the relevant period and where the HSI ETF invests in these securities, it may be subject to losses. In case of low trading volume in respect of an underlying security, the liquidity of such security may be adversely affected. Accordingly, the ability of the HSI ETF to meet the redemption applications of its Unitholders may be adversely affected.

Financial Derivative Instruments Risks

The risks associated with the use of FDIs are different from, or possibly greater than, the risks associated with investing directly in securities and other traditional investments. Generally, a derivative is a financial contract the value of which depends upon, or is derived from, the value of an underlying asset, reference rate or index, and may relate to stocks, bonds, interest rates, currencies or currency exchange rates, commodities, and related indices. Both exchange-traded and over-the-counter derivatives may be utilised. Compared to equity securities, FDIs can be more sensitive to changes in market prices of the underlying assets and thus market prices of FDIs may fall in value as rapidly as they may rise. Investors investing in such a fund are exposed to a higher degree of fluctuation in value than other funds which does not invest in FDIs. Transactions in over-the-counter FDIs may involve additional risk such as the risk that a counterparty defaults as there is no regulated market for such FDIs. Investing in FDIs also involves other types of risks including, but not limited to, the risk of adopting different valuation methodologies and imperfect correlation between the FDI and its underlying securities, rates and indices. Risks associated with FDIs also include counterparty/credit risk, liquidity risk, valuation risk, volatility risk and over-the-counter transaction risk. The leverage element/component of a FDI can result in a loss significantly greater than the amount invested in the FDI. Exposure to FDIs may lead to a high risk of significant loss. There is no assurance that the derivative strategy used by the HSI ETF (if any) will succeed.

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.

Reliance on Market Makers risk

The Manager will use its best endeavours to put in place arrangements so that at least one market maker will maintain a market for the Units traded in each counter. Nevertheless, it should be noted that liquidity in the secondary market for the Units may be adversely affected if there is no market maker for the HKD traded Units or no market maker for the RMB traded Units. The Manager will seek to mitigate this risk by using its best endeavours to put in place arrangements so that at least one market maker for the Units traded in each counter gives not less than 3 months' notice prior to terminating the relevant market making arrangement(s). There may also be less interest by potential market makers in making a market in Units traded in RMB. Further, any disruption to the availability of RMB may adversely affect the capability of market makers in providing liquidity for RMB traded Units. It is possible that there is only one market maker to a counter or to the HSI ETF or the Manager may not be able to engage a substitute market maker within the termination notice period of a market maker, and there is also no guarantee that any market making activity will be effective.

Risk of reliance on Participating Dealers risk

The creation and redemption of Units may only be effected through Participating Dealers. A Participating Dealer may charge a fee for providing this service. Participating Dealers will not be able to create or redeem Units during any period when, amongst other things, dealings on the SEHK are restricted or suspended, settlement or clearing of relevant securities through the CCASS is disrupted or the Index is not compiled or published. In addition, Participating Dealers will not be able to issue or redeem Units if some other event occurs that impedes the calculation of the Net Asset Value of the HSI ETF or disposal of the HSI ETF's securities cannot be effected. Since the number of Participating Dealers at any given time will be limited, and there may even be only one Participating Dealer at any given time, there is a risk that investors may not always be able to have creation or redemption of Units freely.

Reliance on the same group risk

Both the Manager and the Index Provider are presently subsidiaries of Hang Seng Bank Limited (the "**Hang Seng Bank Group**"). One or more of the Participating Dealers and/or market makers may from time to time be members of the Hang Seng Bank Group. Nonetheless, the Manager does not consider this will be a risk for the following reasons:

- (a) The Index Provider's operations and the Manager's investment management operations are under the responsibility of different staff and management teams. There are no common directors between the Index Provider and the Manager.
- (b) The Hang Seng Bank Group has internal policies and procedures in place which ensure that effective "Chinese Walls" are created and maintained between different legal entities of the Hang Seng Bank Group and their operations and which impose strict obligations of confidentiality on such legal entities' staff. Information is disclosed between different operations within the same legal entity and between different legal entities of the Hang Seng Bank Group on a "need to know" basis only.
- (c) The Hang Seng Bank Group has procedures in place restricting access to important systems to authorised personnel. All of the Hang Seng Bank Group's staff are required to comply with the Hang Seng Bank Group's internal policies and procedures and the IT security standards of the Hang Seng Bank Group.

- (d) As indicated in Appendix 2 – Information about the Hang Seng Index, the Index has clear and well documented methodology and rules by which the Index is calculated.

Apart from the above, the Registrar, the Administrator, the Custodian, the Manager (also acting as the Listing Agent) and the Index Provider are members of the HSBC Group (the “**Group**”). One or more of the Participating Dealers and/or market makers may also from time to time be members of the Group. Whilst these are separate legal entities and operationally independent, in the event of a financial catastrophe or the insolvency of any member of the Group, there may be adverse implications for the business of the Group as a whole or other members of the Group which could affect the provision of services to the HSI ETF. In such event the Net Asset Value of the HSI ETF may be adversely affected and its operation disrupted.

It should be noted that the Registrar, the Administrator, the Custodian, the Manager and the Index Provider are presently all members of the Group, and one or more of the Participating Dealers and/or market makers may from time to time be members of the Group. As such, although all transactions will be at arm’s length, conflicts of interest in respect of the HSI ETF may arise from time to time amongst any of them whilst they belong to the Group. In particular, the Manager may be in dispute with the present Index Provider if it terminates the licence to use the Index. The Manager and each of its Connected Persons will have regard to its obligations to the HSI ETF and Unitholders and will endeavour to ensure such conflicts are resolved fairly. The attention of investors is drawn to the section headed “Conflicts of Interest that may apply to the HSI ETF”.

Counterparty to custodian risk

Deposits of securities or cash with a custodian, bank or financial institution (“custodian or depository”) will carry counterparty risk as the custodian or depository may be unable to perform their obligations due to credit-related and other events like insolvency of or default of them. In most cases, the HSI ETF’s assets will be maintained by the custodian or depository in segregated accounts and would be protected in the event of the insolvency of the custodian or depository.

Risk of termination of the HSI ETF

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

FATCA related risk

Although the HSI ETF will attempt to satisfy any obligations imposed on it to avoid the imposition of the FATCA withholding tax, no assurance can be given that the HSI ETF will be able to satisfy these obligations. If the HSI ETF becomes subject to a withholding tax as a result of the FATCA regime, the value of the Units held by Unitholders may suffer material losses. Please refer to the section “The United States of America – Foreign Account Tax Compliance Act (FATCA)”.

Risks associated with distribution of dividend out of capital or effectively out of capital

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

General risks of investments associated with the Mainland

Political and economic considerations

The HSI ETF tracks the Index and its investments include shares of companies which have substantial business exposure to growth opportunities in the Mainland and listed on the SEHK (including H-shares and red chips shares). However, investors should be aware that the economy of the Mainland differs from the economies of most developed countries in many respects, including with respect to government involvement in its economy, level of development, growth rate and control of foreign exchange. The regulatory and legal framework for capital markets

and companies in the Mainland is not well developed when compared with those of developed countries.

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

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

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

Investors should be aware that, for more than 50 years, the PRC government has adopted a planned economic system. Since 1978, the PRC government has implemented economic reform measures which emphasise decentralisation and the utilisation of market forces in the development of the Mainland economy. Such reforms have resulted in significant economic growth and social progress. However, many of the economic reforms in the Mainland are unprecedented or experimental and are subject to adjustment and modification, and such adjustment and modification may not always have a positive effect on securities markets. Also, many laws and regulations in the Mainland are new and therefore untested and there is no certainty as to how they will be applied. They may also be varied in the future.

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

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

Accounting, auditing and financial reporting standards and practices

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

Legal system

The legal system of the Mainland in general and for securities markets in particular have been undergoing a period of rapid change over recent years which may lead to difficulties in interpreting and applying newly evolving regulations. The revised Securities Law which came into force on 1 January 2006 has made a comprehensive revision to the old Securities Law relating to the issuing, listing and trading system etc. of securities, and the revised Securities Law was amended on 29 June 2013.

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

PRC tax risk

Currently, the Manager does not make any tax provision on realised gains derived from trading of H-shares and red chips shares by the HSI ETF. However, the Manager reserves the right to make any provision for taxes or withhold any tax for the account of the HSI ETF.

There are still uncertainties as to the application of the laws, rules and/or regulations on PRC Corporate Income Tax and PRC Value-Added Tax and surtaxes. It is also uncertain as to whether the HSI ETF may be subject to other taxes imposed in the PRC. It is possible that the current tax laws, rules, regulations and practice in the Mainland and/or the current interpretation or understanding thereof may change in the future and such change(s) may have retrospective effect. Where no provision is made by the Manager in relation to all or part of the actual taxes levied by the relevant PRC tax authorities in future, investors should note that the Net Asset Value of the HSI ETF may be lowered, as the HSI ETF will ultimately have to bear the full amount of tax liabilities. In this case, such amount of tax liabilities will only impact Units in issue at the relevant time, and the then existing Unitholders and subsequent Unitholders will be disadvantaged.

Please refer to the section “Taxes and Duties Payable by the HSI ETF” – “The PRC” – “Corporate Income Tax” and “Value-Added Tax” below for further details.

General risks of investments associated with RMB currency

RMB is not freely convertible and subject to exchange controls and restrictions risk

It should be noted that the RMB is currently not a freely convertible currency as it is subject to foreign exchange control policies and repatriation restrictions imposed by the PRC government. Since 1994, the conversion of RMB into US dollar has been based on rates set by the PBOC, which are set daily based on the previous day's PRC interbank foreign exchange market rate. On 21 July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of RMB to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. In addition, a market maker system was introduced to the interbank spot foreign exchange market. In July 2008, the PRC announced that its exchange rate regime was further transformed into a managed floating mechanism based on market supply and demand. Given the domestic and overseas economic developments, the PBOC decided to further improve the RMB exchange rate regime in June 2010 to enhance the flexibility of the RMB exchange rate. In April 2012, the PBOC decided to take a further step to increase the flexibility of the RMB exchange rate by expanding the daily trading band from +/- 0.5% to +/- 1%. Effective 11 August 2015 the RMB central parity is fixed against the US dollars by reference to the closing rate of the inter-bank foreign exchange market on the previous day (rather than the previous morning's official setting). However it should be noted that the PRC government's policies on exchange control and repatriation restrictions are subject to change, and any such change may adversely impact the HSI ETF. There can be no assurance that the RMB exchange rate will not fluctuate widely against the US dollar or any other foreign currency in the future.

Foreign exchange transactions under the capital account, including principal payments in respect of foreign currency-denominated obligations, currently continue to be subject to significant foreign exchange controls and require the approval of the State Administration of Foreign Exchange. On the other hand, the existing PRC foreign exchange regulations have significantly reduced government foreign exchange controls for transactions under the current account, including trade and service related foreign exchange transactions and payment of dividends. Nevertheless, the Manager cannot predict whether the PRC government will continue its existing foreign exchange policy or when the PRC government will allow free conversion of the RMB to foreign currency.

RMB trading and settlement of Units risk

The trading and settlement of RMB traded securities are recent developments in Hong Kong and there is no assurance that there will not be problem with the systems or that other logistical problems will not arise. Although end-to-end simulation trading and clearing of listed RMB products testing sessions and payment pilot runs for participants of the SEHK were held by the SEHK in 2011, some brokers may not have participated in such testing sessions and pilot runs and for those who have, not all of them may be able to successfully complete such testing sessions and pilot runs, and there is no assurance of their readiness for dealing in RMB traded securities. Investors should note that not all brokers may be ready and able to carry out trading and settlement of RMB traded Units and thus they may not be able to deal in the RMB traded Units through some brokers. Investors should check with their brokers in advance if they intend to engage Dual Counter trading or in inter-counter transfers and should fully understand the services which the relevant broker is able to provide (as well as any associated fees). Some exchange participants may not provide inter-counter transfer or Dual Counter trading services.

Exchange rates movement between the RMB and other currencies risk

Investors in RMB traded Units whose assets and liabilities are predominantly in HKD or in currencies other than RMB should take into account the potential risk of loss arising from fluctuations in value between such currencies and RMB. In addition, investors in RMB traded Units should note that dividends on RMB traded Units will only be paid in HKD. Accordingly, foreign exchange risk will also apply to investors in RMB traded Units. There is no guarantee that RMB will appreciate in value against HKD or any other currency, or that the strength of RMB may not weaken. In such case an investor may enjoy a gain in RMB terms but suffer a loss when converting funds from RMB back into HKD (or any other currency).

Future movements in RMB exchange rates risk

The exchange rate of RMB ceased to be pegged to US dollars on 21 July 2005, resulting in a more flexible RMB exchange rate system. The China Foreign Exchange Trading System, authorised by the PBOC, promulgates the central parity rate of RMB against US dollars, Euro, Yen, pound sterling and HKD at 9:15 a.m. on each business day, which will be the daily central parity rate for transactions on the Inter-bank Spot Foreign Exchange Market and OTC transactions of banks. The exchange rate of RMB against the above-mentioned currencies fluctuates within a range above or below such central parity rate. Effective 11 August 2015, the PBOC changed the central parity system for the US dollars to a more market based system by which the central parity is set by reference to the closing rate of the inter-bank foreign exchange market on the previous day. As the exchange rates are based primarily on market forces, the exchange rates for RMB against other currencies, including US dollars and HKD, are susceptible to movements based on external factors. There can be no assurance that such exchange rates will not fluctuate widely against US dollars, HKD or any other foreign currency in the future. From 1994 to July 2005, the exchange rate for RMB against US dollar and the HKD was relatively stable. Since July 2005, the appreciation of RMB has begun to accelerate. Although the PRC government has constantly reiterated its intention to maintain the stability of RMB, it may introduce measures (such as a reduction in the rate of export tax refund) to address the concerns of the PRC's trading partners. Therefore, the possibility that the appreciation of RMB will be further accelerated cannot be excluded. On the other hand, there can be no assurance that RMB will not be subject to devaluation.

Offshore RMB (CNH) market risk

The onshore RMB (CNY) is the only official currency of the PRC and is used in all financial transactions between individuals, state and corporations in the PRC. Hong Kong is the first jurisdiction to allow accumulation of RMB deposits outside the PRC. Since June 2010, the offshore RMB (CNH) is traded officially, regulated jointly by the Hong Kong Monetary Authority and the PBOC. While both CNY and CNH represent RMB, they are traded in different and separated markets. The two RMB markets operate independently where the flow between them is highly restricted. Though the CNH is a proxy's of the CNY, they do not necessarily have the same exchange rate and their movement may not be in the same direction. This is because these currencies act in separate jurisdictions, which leads to separate supply and demand conditions for each, and therefore separate but related currency markets.

However, the current size of RMB-denominated financial assets outside the PRC is limited. In addition, participating authorised institutions are also required by the Hong Kong Monetary Authority to maintain a total amount of RMB (in the form of cash and its settlement account balance with the RMB Clearing Bank) of no less than 25% of their RMB deposits, which further limits the availability of RMB that participating authorised institutions can utilise for conversion services for their customers. RMB business participating banks do not have direct RMB liquidity support from PBOC. The Renminbi Clearing Bank only has access to onshore liquidity support from PBOC (subject to annual and quarterly quotas imposed by PBOC) to square open positions of participating banks for limited types of transactions, including open positions resulting from conversion services for corporations relating to cross-border trade settlement and for individual customers. The Renminbi Clearing Bank is not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services and the participating banks will need to source RMB from the offshore market to square such open positions. Although it is expected that the offshore RMB market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC regulations will not be promulgated or the relevant settlement agreements between Hong Kong banks and the PBOC will not be terminated or amended in the future which will have the effect of restricting availability of RMB offshore. The limited availability of RMB outside the PRC may affect the ability of investors to acquire Units or to sell Units of the HSI ETF affecting the liquidity and trading price of the Units on the SEHK.

HKD dividends risk

Investors should note that where a Unitholder holds Units traded under the RMB counter, the relevant Unitholder will only receive dividends in HKD and not RMB. In the event the relevant Unitholder has no HKD account, the Unitholder may have to bear the fees and charges associated with the conversion of such dividend from HKD into RMB or any other currency. Unitholders should check with their brokers concerning arrangements for dividends.

Liquidity Risk Management

Liquidity Risk Management Process

Liquidity risk management process is in place for the Manager to manage and monitor liquidity profile of the HSI ETF in a prudent manner under both normal and adverse market situations.

When managing the HSI ETF, in addition to risk factors such as market risk, credit risk, exchange rate risk, interest rate risk, etc., the portfolio management team of the Manager considers the liquidity of the HSI ETF's investments and the corresponding impact on the liquidity profile of the HSI ETF as well as the HSI ETF's potential liquidity requirement, in a manner which shall facilitate the HSI ETF to meet its redemption obligations.

An investment liquidity risk monitoring framework is employed by the Manager to assess and manage liquidity risk of the HSI ETF. Ongoing liquidity risk assessments and monitoring are performed, taking into account the potential liquidity requirements of the HSI ETF and the market liquidity under normal and stressed circumstances.

In assessing the potential liquidity requirements of the HSI ETF, the Manager considers the historical and expected redemption patterns of the HSI ETF to the extent practicable and how concentration of holding of Units of the HSI ETF (if any) might impact the redemption profile and hence the level of liquidity risk of the HSI ETF.

Mechanism is in place for the Manager to assess, review and decide on the actions which may be required at short notice to meet liquidity demands of the HSI ETF under unexpected stressed conditions.

Independent control monitoring is put in place by the Manager to ensure the ongoing implementation of the liquidity risk management process for the HSI ETF. Liquidity risk management for the HSI ETF is also subject to oversight by an internal committee of the Manager.

Liquidity Risk Management Tools

The following liquidity risk management tools are in place for the Manager to manage the liquidity risk of the HSI ETF and to ensure that Unitholders are treated fairly:

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

There are circumstances in which the Net Asset Value of the HSI ETF may not be ascertained or it is not reasonably practicable to realise any investments of the HSI ETF. In such cases, the Manager may, after giving notice to, and in consultation with the Trustee, having regard to the best interests of the Unitholders, declare a suspension of the determination of the Net Asset Value of the HSI ETF and the right to redeem Units of the HSI ETF. After the Manager has provided notice to and consulted with the Trustee, no Units will be issued or redeemed during such a period of suspension. For details of such circumstances and the relevant notification arrangement by the Manager, please refer to the point below headed "Suspension of the Determination of Net Asset Value and the Right to Redeem Units".

Borrowings

There may be circumstances in which sufficient cash is not readily available for payment of redemption proceeds of the HSI ETF, e.g. redemption payment is due to be settled before proceeds from disposal of underlying investments of the HSI ETF is received. Borrowing can be used as a liquidity risk management tool for the HSI ETF to meet redemption obligations, subject to the restrictions as set out in the sub-section headed "Borrowing Restrictions" under "Are there any Investment or other Restrictions Applicable to the HSI ETF?".

Adjustments to the Issue Price and Redemption Price of the HSI ETF

Where there is net cash inflow to the HSI ETF, the Manager will generally invest for the HSI ETF; where there is net cash outflow to the HSI ETF, investments may need to be sold to fulfill the redemption obligations of the HSI ETF. Duties and Charges (such as stamp duties) so incurred, if significant, will adversely affect the interest of the

remaining investors of the HSI ETF. As such, for cash subscriptions and redemptions, the Manager may make adjustments to Issue Price and Redemption Price to reflect not only the Net Asset Value per Unit but also the appropriate provision for Duties and Charges, as set out in the section headed “Calculation of Issue Price and Redemption Price”. This, in effect, is to allocate the costs of subscription to subscribing investors and the costs of redemption to redeeming investors.

Impact of the Use of the Liquidity Risk Management Tools on the HSI ETF and Investors

The liquidity risk management tools aim to protect the interests of investors of the HSI ETF under circumstances as stated above and determined by the Manager from time to time. Investors should pay attention to the impact of the use of liquidity risk management tools on the HSI ETF and the investors:

- *Suspension of the Determination of Net Asset Value and the Right to Redeem Units:*
 - (1) 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. No Units will be issued or redeemed during such a period of suspension.
 - (2) In the case of suspension of creations and/or redemptions of Units, the Manager anticipates that there may be larger discounts or premiums as between the secondary market price of Units and the Net Asset Value per Unit.
- *Borrowings:* While borrowings may provide liquidity for the HSI ETF, it will increase its operating expenses and hence would affect the performance of the HSI ETF.
- *Adjustments to the Redemption Price of the HSI ETF:* Adjustments to reflect not only the Net Asset Value per Unit but also the appropriate provision for Duties and Charges in determining the Redemption Price for the HSI ETF aim to allocate the costs of redemption to redeeming investors. Investors should note that such costs of redemption charged to the redeeming investors and so received by the HSI ETF may be greater than or less than the actual costs of redemption incurred by the HSI ETF.

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

Investors may:

- (1) purchase and sell Units in the secondary market on the SEHK either in HKD in respect of HKD traded Units or in RMB in respect of RMB traded Units under the Dual Counter;
- (2) apply for in-kind creation and redemption through Participating Dealers; and/or
- (3) apply for cash creation or redemption through Participating Dealers, subject to the Manager’s absolute discretion to decide whether to accept a cash creation application or cash redemption application.

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

Purchase and sale of Units on the SEHK

Dealings on the SEHK in HKD traded Units commenced on 21 September 2004. Dealings on the SEHK in RMB traded Units commenced on 4 September 2015.

Investors can purchase and sell HKD and RMB traded Units in board lots of 100 Units (or multiples thereof) like ordinary listed stocks through an intermediary such as a broker or any of the share dealing services offered by banks or other financial advisers at any time the SEHK is open.

However, investors should note that transactions in the secondary market on the SEHK occur at market prices which may vary throughout the day and may differ from Net Asset Value 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 Net Asset Value per Unit.

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

Creation and redemption

Investors may also apply for cash or in-kind creation of Units based on Net Asset Value per Unit through Participating Dealers by tendering (in the case of cash creations) a cash payment of an amount equivalent to the aggregate of the Issue Price multiplied by the relevant number of Units, or (in the case of in-kind creations) a basket (the “**Basket**”) of HSI Constituent Stocks and a cash amount (the “**Cash Component**”) as determined and announced by the Manager in advance. Cash or in-kind redemptions of Units based on Net Asset Value per Unit can also be made in a similar manner by tendering the relevant number of Units in exchange for (in the case of cash redemptions) a cash payment of an amount equal to the aggregate of the Redemption Price multiplied by the relevant number of Units, or (in the case of in-kind redemptions) the Basket and Cash Component.

Investors should note that creations and redemptions are made in high minimum transaction sizes and the current cash minimum transaction size and in-kind minimum transaction size are both 300,000 Units (or multiples thereof). In addition, by applying for an in-kind creation or an in-kind redemption, investors are essentially exchanging the underlying HSI Constituent Stocks for the Units (in the case of creations) and vice versa (in the case of redemptions). There is no material change in market exposure of their holdings. In other words, their exposure to the share market is neither increased nor decreased through an in-kind creation or redemption but investors should note that the HSI ETF will be subject to tracking error due to fees and other factors.

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

The cut-off time (the “**Dealing Deadline**”) is 2:00 p.m. Hong Kong time on each Dealing Day (for making a cash creation application and a cash redemption application by a Participating Dealer) and 15 minutes after the official closing time of the SEHK on each Dealing Day (for making an in-kind creation application and an in-kind redemption application by a Participating Dealer), 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.

In respect of in-kind creations, Units will be issued against the relevant Basket and Cash Component (or vice versa) two CCASS Settlement Days after receipt of the creation application or on such later date as determined by the Manager. In respect of cash creations, Units will be issued against the cash payment two CCASS Settlement Days after receipt of the creation application, or on such other date as determined by the Manager in accordance with the Operating Guidelines.

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

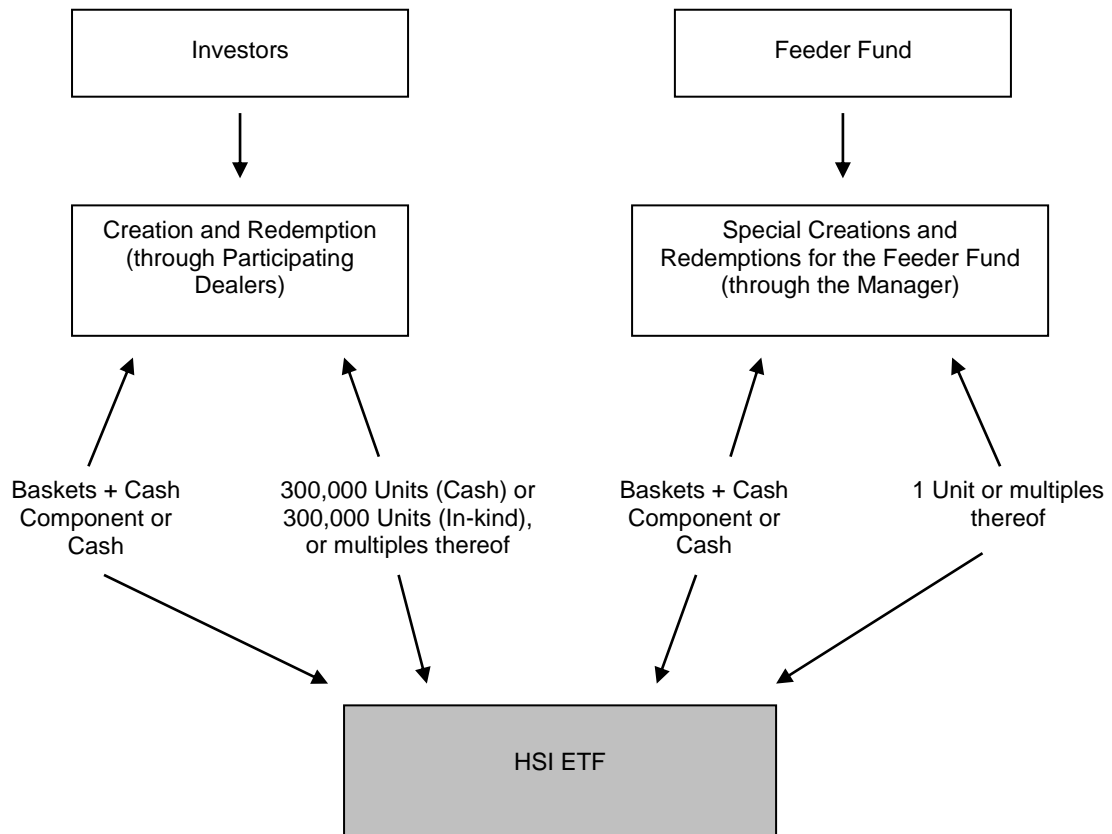
Special creation and redemption

The Manager may also facilitate cash subscriptions and cash redemptions and in-kind creations and in-kind redemptions of Units based on Net Asset Value per Unit by the Feeder Fund. The minimum sizes for in-kind creations and in-kind redemptions of Units through Participating Dealers described above do not apply to such cash subscriptions and redemptions for the Feeder Fund. Cash subscriptions and redemptions for all Units must be in HKD.

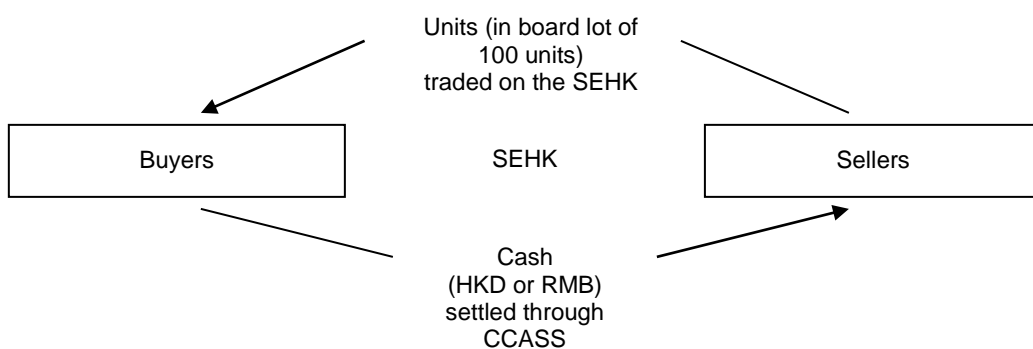
The Dealing Deadline for making a special creation application and a special redemption application by the Feeder Fund is the official closing time of the SEHK on the relevant Dealing Day, or such other time prior to the calculation of the Net Asset Value of the HSI ETF on that Dealing Day as the Manager may determine and agree with the Trustee.

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

(1) Creation and redemption of Units



(2) Trading of Units in the secondary market



Certificates

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

All Units will be registered in the name of HKSCC Nominees Limited on the register of the 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 account with your chosen CCASS Participant or, as the case may be, other intermediary.

Summary of Different Trading Methods of Units and Related Fees

<u>Different Trading Methods of Units</u>	<u>Minimum Number of Units (multiple of)</u>	<u>Channel</u>	<u>Available to</u>	<u>Consideration, Fees and Charges¹</u>
Purchase and sale in cash (in HKD or RMB) 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 Other Duties and Charges
Cash creation and redemption	300,000	Through Participating Dealers	Any investor satisfying the minimum unit requirements and acceptable to the Participating Dealer as its client	Issue Price / Redemption Price ² (in cash) Transaction Fee Any fees and charges imposed by the Participating Dealer
In-kind creation and redemption	300,000	Through Participating Dealers	Any investor satisfying the minimum unit requirements	Basket Cash Component Transaction Fee Any fees and charges imposed by the Participating Dealer Duties and Charges
Special creation and redemption	1	Through the Manager	Feeder Fund only	Basket + Cash Component (in-kind) or Issue Price / Redemption Price ² (in cash)

¹ For details, please see the sub-section headed "Fees and expenses payable by investors in the HSI ETF" in Appendix 1.

² The appropriate Duties and Charges will be taken into account in determining the Issue Price and Redemption Price. For details please see the section "Calculation of Issue Price and Redemption Price".

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

Rejection of Applications

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

Fractional Units

The HSI ETF will not issue fractional Units.

Determination of Net Asset Value

The Net Asset Value of the HSI ETF will be determined in HKD in accordance with the Trust Deed. The Manager may, with the prior written 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.

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

Set out below is a summary of how assets held by the HSI ETF are valued:

- (a) Investments (including an interest in a Collective Investment Scheme quoted, listed or normally dealt in on a recognised securities market but excluding an interest in an unlisted Collective Investment Scheme or a commodity) shall, at the discretion of the Manager, be calculated by reference to the price appearing to the Manager to be the last traded price or closing price as calculated and published by the recognised securities market for such investment or (if no last traded price or closing price is available) the latest available price on the recognised securities market on which the investment is quoted, listed, traded or normally dealt in for such amount of such investment at or immediately preceding the Valuation Point, as the Manager may consider in the circumstances to provide a fair criterion, provided that: (i) subject to (ii) below, if an investment is quoted, listed, traded or normally dealt in on more than one recognised securities markets, the Manager shall adopt the nominal closing price quoted on the market which, in its opinion, provides the principal market for such investment; (ii) in the case of any investment which is quoted, listed or normally dealt in on a recognised securities market but in respect of which, for any reason, prices on that market may not be available at any relevant time or such market's nominal closing price is not considered to provide a fair value for such investment by the Manager, the value thereof shall be certified by such firm or institution making a market in such investment as may be appointed for such purpose by the Manager or, if the Trustee so requires, by the Manager after consultation with the Trustee; and (iii) interest accrued on interest bearing investments up to (and including) the date as at which the valuation is made should be taken into account, unless such interest is included in the quoted or listed price;
- (b) the value of any investment (other than an interest in a Collective Investment Scheme or a commodity) which is not quoted, listed or ordinarily dealt in on a recognised securities markets shall be the initial value thereof equal to the amount expended out of the HSI ETF in the acquisition of such investment (including in each case the amount of stamp duties, commissions and other acquisition expenses) provided that the Manager may at any time with the approval of the Trustee and shall at such times or at such intervals as the Trustee may request cause a revaluation to be made by a professional person approved by the Trustee as qualified to value such investments (which may be the Manager or any Connected Person of the Manager);
- (c) cash, deposits and similar investments shall be valued at their face value (together with accrued interest) unless, in the opinion of the Manager, any adjustment should be made to reflect the value thereof;
- (d) futures contracts will be valued based on the formulae set out in the Trust Deed;
- (e) the value of each unit, share or other interest in any Collective Investment Scheme (other than an interest in a Collective Investment Scheme quoted, listed, traded or normally dealt in on a securities market) shall be the last published net asset value per unit, share or other interest in such Collective Investment Scheme (where available) or (if the same is not available) a price calculated by aggregating the last published bid price for such a unit, share or other interest and the last published offer price therefor (excluding any preliminary or initial charge included in such offer price) and dividing the result by two, and if no net asset value, bid and offer prices or price quotations are available, the value thereof shall be determined from time to time in such manner as the Manager shall determine; and
- (f) notwithstanding the foregoing, the Manager may with the prior written consent of the Trustee adjust the value of any Investment or permit some other method of valuation to be used if, having regard to currency, applicable rate of interest, maturity, marketability and other considerations they deem relevant, they consider that such adjustment or use of such other method is required to reflect the fair value thereof.

The above is a summary of the key provisions of the Trust Deed with regard to how the various assets of the HSI ETF are valued.

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

The Manager may, after giving notice to, and in consultation with the Trustee, having regard to the best interests of the Unitholders, 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.hangsenginvestment.com (this website has not been reviewed by the SFC) and the SEHK's website www.hkex.com.hk (this website has not been reviewed by the SFC) 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 after the Manager has provided notice to and consulted the Trustee.

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

Notwithstanding a Dual Counter being adopted for the HSI ETF, 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 in HKD at the Valuation Point divided by the number of Units then in issue or deemed to be in issue, rounded to the nearest four decimal places with any amount of 0.00005 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, the Manager may, in determining the Issue Price of a Unit, add to the Net Asset Value 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 (such as stamp duties) which would be incurred if the appropriate number of HSI Constituent Stocks were purchased at the values attributed to them in calculating the Net Asset Value per Unit. Similarly, for cash subscriptions and redemptions, the Manager may, when determining the Redemption Price of any Unit, deduct for the account of the HSI ETF from the Net Asset Value per Unit (before making any rounding adjustment) an amount which it considers to be an appropriate allowance to reflect the Duties and Charges (such as stamp duties) 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 Net Asset Value per Unit.

Market Price

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

Fees and Expenses Payable by the HSI ETF

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

Management Fee

The HSI ETF pays the Manager a monthly fee calculated by reference to daily Net Asset Value. 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 (this website has not been reviewed by the SFC) and via www.hangsenginvestment.com (this website has not been reviewed by the SFC). 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

The HSI ETF pays the Trustee a monthly fee calculated by reference to daily Net Asset Value, 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 (this website has not been reviewed by the SFC) and via www.hangsenginvestment.com (this website has not been reviewed by the SFC). Any increase of the maximum level must be approved by registered holders of Units in the HSI ETF at an extraordinary general meeting.

Other Expenses

The HSI ETF bears the expenses which are attributable to it. Such expenses include but are not limited to the costs of the Manager investing on behalf of the HSI ETF (including applicable duties), the fees and expenses of the custodians of its assets, the fees and expenses of the Registrar, the fees and expenses of its auditors, valuation costs, legal fees, index licensing fees, the costs incurred in connection with listing the Units on the SEHK and authorisation as a collective investment scheme by the SFC, the costs of preparation and publication of this offering document (including the Product Key Facts Statement for the HSI ETF) and the Trust Deed, the costs of communicating with and holding meetings of investors, the costs incurred in the preparation and printing of any document or reports to investors (including, as may be agreed to the Manager, postage costs incurred by any nominee for the benefit of the underlying investors in distributing such reports) and all other operating costs. For the avoidance of doubt, no expenses arising out of any advertising or promotional activities in connection with the HSI ETF will be paid from the assets of the HSI ETF.

Soft dollar benefits

Neither the Manager, its delegates (including any investment delegates) nor its Connected Persons will receive cash or other rebates from brokers or dealers in respect of transactions for the account of the HSI ETF. However, the Manager, its delegates (including any investment delegates) or any of their Connected Persons may receive, and are entitled to retain, goods, services or other benefits, such as research and advisory services, economic and political analysis, portfolio analysis (including valuation and performance measurement), market analysis, data and quotation services, computer hardware and software incidental to the above goods and services, clearing and custodian services and investment-related publication (known as soft dollar benefits) which are of demonstrable benefit to the HSI ETF (as may be permitted under the Code, applicable rules and regulations) from brokers and other dealers through whom investment transactions are carried out provided that the quality of transaction execution is consistent with best execution standards, brokerage rates are not in excess of customary institutional full-service brokerage rates and the availability of soft dollar arrangements is not the sole or primary purpose to perform or arrange transaction with such broker or dealer. For the avoidance of doubt, such goods and services do not include travel accommodation, entertainment, general administrative goods or services, general office equipment or premises, membership fees, employee salaries or direct money payments. Details of soft dollar arrangements will be disclosed in the HSI ETF’s annual report.

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

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

Dividend Policy

The Manager may, at its discretion, distribute quarterly cash dividends (if any), which are expected to be in respect of each calendar quarter of each calendar year respectively. The Manager currently intends to make declaration of dividends in March, June, September and December of each year. Each Unitholder will receive dividends in HKD only (whether holding HKD traded Units or RMB traded Units). There is no guarantee of regular distribution of dividends and if dividend is paid the amount being distributed.

The Manager may, at its discretion, pay dividend out of capital of the HSI ETF as contemplated by FAQ34 on the Code issued by the SFC. The Manager may also, at its discretion, pay dividend out of gross income while all or part of the fees and expenses of the HSI ETF are charged to/paid out of the capital of the HSI ETF, resulting in an increase in distributable income for the payment of dividends by the HSI ETF and therefore, the HSI ETF may effectively pay dividend out of capital as contemplated by FAQ34.

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

The compositions of the dividends (i.e. the percentages of dividends being paid out of (i) net distributable income and (ii) capital) for a rolling 12-month period are available from the Manager on request and on the website www.hangsenginvestment.com (this website has not been reviewed by the SFC). Details of ex-dividend dates and dividend payment dates shall also be published on the website www.hangsenginvestment.com (this website has not been reviewed by the SFC) and via the SEHK’s website www.hkex.com.hk (this website has not been reviewed by the SFC). The Manager may amend the policy regarding paying dividends out of capital or effectively out of capital by giving not less than 1 month’s advance notice to Unitholders.

Reporting to Investors

Reports and Accounts

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

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

The interim and annual financial reports will be available in both English and Chinese language, and provide a summary illustrating the differences between the daily closing price for the Units on the SEHK and its Net Asset Value per Unit over the reporting period.

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

The 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.hangsenginvestment.com (this website has not been reviewed by the SFC) (and a hyperlink from the SEHK’s website www.hkex.com.hk (this website has not been reviewed by the SFC) is also available). You should regularly review such information. Such information will include:

- this offering document (including the Product Key Facts Statement) in respect of the HSI ETF, as may be updated from time to time;
- the latest annual audited and interim unaudited financial reports of the HSI ETF;

- the last Net Asset Value in HKD only and the last Net Asset Value per Unit in HKD and in RMB (updated on a daily basis);
- the near real-time indicative Net Asset Value per Unit (updated every 15 seconds during the SEHK trading hours throughout each Dealing Day) in HKD and in RMB;
- any notices relating to material changes to the HSI ETF which may have an impact on its investors, such as material alterations or additions to this offering document or the HSI ETF's constitutive documents;
- any public announcements made by the HSI ETF, including information with regard to the HSI ETF and the Index, as well as notices of suspension of creation and redemption of units, suspension of the calculation of the Net Asset Value, changes in fees and suspension and resumption of trading;
- the latest list of Participating Dealers and Market Makers;
- the full holdings of the HSI ETF (updated on a daily basis);
- the ongoing charges figure and the past performance information of the HSI ETF;
- the annual tracking difference and tracking error of the HSI ETF; and
- the compositions of the dividends (i.e. the relative amounts paid out of (i) net distributable income and (ii) capital), if any, for a rolling 12-month period (such information is also available from the Manager on request).

The near real-time indicative Net Asset Value per Unit in RMB is indicative and for reference only. The near real-time indicative Net Asset Value per Unit in RMB does not use a real-time RMB:HKD foreign exchange rate – it is calculated using the indicative Net Asset Value per Unit in HKD multiplied by an assumed foreign exchange rate using the Tokyo Composite 3:00 p.m. Tokyo time (2:00 p.m. Hong Kong time) mid rate quoted by Bloomberg for offshore RMB (CNH) on the previous SEHK trading day.

The last Net Asset Value per Unit in RMB is indicative and for reference only and is calculated using the last Net Asset Value per Unit in HKD multiplied by an assumed foreign exchange rate using the Tokyo Composite 3:00 p.m. Tokyo time (2:00 p.m. Hong Kong time) mid rate quoted by Bloomberg for offshore RMB (CNH) as of the same Dealing Day.

The composition of a Basket shall appear on every Dealing Day via the SEHK's website at www.hkex.com.hk (this website has not been reviewed by the SFC) for Participating Dealer's in-kind creation and redemption of Units.

Information About the Index

Information regarding the Index and the index provider of such index can be found in Appendix 2. Real-time updates about the Index can be obtained through the SEHK Teletext System, Thomson Reuters, Bloomberg and on www.hsi.com.hk (this website has not been reviewed by the SFC) the latter of which contains the additional and latest updated information about the Index and a description of the way in which such index is calculated. It is your own responsibility to obtain the current Index information (including without limitation, any change in the composition of the Index, any change in the method for compiling and calculating the Index) via the www.hsi.com.hk website (this website has not been reviewed by the SFC). Please refer to the section headed "References to Websites" for the warning and the disclaimer regarding information contained in such website.

Information About HSI Constituent Stocks

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

The 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 delegates to assist the Manager in managing the HSI ETF. No such investment manager or investment delegate has yet been appointed as at the date of this offering document.

Hang Seng Investment Management Limited was incorporated in Hong Kong with limited liability in April 1993. It is a wholly-owned subsidiary of Hang Seng Bank Limited (“**Hang Seng Bank**”) and is the investment arm of Hang Seng Bank. It also provides investment management services to Hang Seng Bank and Hang Seng Bank’s customers and has extensive experience in managing index-tracking funds, retirement funds, institutional accounts and private client portfolios.

Founded in 1933, Hang Seng Bank is one of Hong Kong’s largest listed companies. Hang Seng Bank is a principal member of the HSBC Group, one of the world’s largest banking and financial organisations.

Trustee, Custodian and Administrator

The trustee of the HSI ETF is AIA Company (Trustee) Limited. Currently, the Trustee has delegated its administrative and custodian roles to HSBC Institutional Trust Services (Asia) Limited. The Trustee may change such delegations from time to time. The sub-custodian currently appointed by HSBC Institutional Trust Services (Asia) Limited is The Hongkong and Shanghai Banking Corporation Limited, although this appointment may be changed from time to time.

Under the Trust Deed, the Trustee is responsible for the safe-keeping of the assets of the HSI ETF. The Trustee may also appoint any other person or persons to be the custodian of the HSI ETF’s assets or to act as registrar. The Trustee may from time to time (1) appoint such person or persons as it thinks fit (including, without limitation, any of its Connected Persons) to hold as custodian, nominee or agent, all or any of the investments, assets or other property comprised in the Trust or any of the sub-funds and may empower any such custodian, nominee or agent to appoint, with the prior consent in writing of the Trustee, co-custodians and/or sub-custodians (each such custodian, nominee, agent, co-custodian and sub-custodian a “Correspondent”) and (2) delegate all or any of its duties, powers and discretions under any provisions of the Trust Deed to any person or corporation (including a Connected Person of the Trustee) approved by the Manager. The Trustee is required to (a) exercise reasonable care, skill and diligence in the selection, appointment and ongoing monitoring of Correspondents and delegates and (b) be satisfied that each Correspondent or delegate retained remain suitably qualified and competent on an ongoing basis to provide the relevant services to the HSI ETF. The Trustee shall be liable for the acts and omissions of any Correspondent and of any delegate which is a Connected Person of the Trustee as if the same were the acts or omissions of the Trustee. Provided that the Trustee has discharged its obligations set out in (a) and (b) as set out in this paragraph, the Trustee shall not be liable for any act, omission, insolvency, liquidation or bankruptcy of any Correspondent and of any delegate which is not a Connected Person of the Trustee.

The Trustee shall not be liable for: (i) any agents and persons appointed by the Manager; (ii) any depository or clearing system in relation to any security deposited with such depository or clearing system; (iii) any Registrar (other than where the Trustee is the Registrar), Participating Dealers, counterparties, third party service providers and advisers (including any third party service providers appointed to provide service in respect of the Trust at the instruction of the Manager, where the Trustee is not involved in the selection of such service providers)..

Subject as provided in the Trust Deed, the Trustee shall not be liable for losses caused by the performance of investments made by the Trust and/or the HSI ETF.

Subject to the terms of the Trust Deed, the Trustee is entitled to be indemnified from the assets of the Trust and/or the HSI ETF from and against any action, costs, claims, damages, expenses or demands relating to the HSI ETF (other than those arising out of any liability or obligation to Unitholders imposed on the Trustee pursuant to the laws of the Hong Kong or the Trust Deed or for breach of trust through its fraud or negligence) to which it may be put as Trustee to have recourse to the assets of the HSI ETF or any part thereof but shall not have a right of recourse to the assets of any other sub-fund under the Trust (if any)

The Trustee in no way acts as guarantor or offeror of the Units or any underlying investment.

The Trustee will not participate in transactions and activities, or make any payments denominated in US dollars, which, if carried out by a US person, would be subject to sanctions by The Office of Foreign Assets Control (the "OFAC") of the US Department of the Treasury. The OFAC administers and enforces economic sanction programs primarily against countries and groups of individuals, such as terrorists and narcotics traffickers by using the blocking of assets and trade restrictions to accomplish foreign policy and national security goals. In enforcing economic sanctions, OFAC acts to prevent "prohibited transactions," which are described by OFAC as trade or financial transactions and other dealings in which US persons may not engage unless authorised by OFAC or expressly exempted by statute. OFAC has the authority to grant exemptions to prohibitions on such transactions, either by issuing a general licence for certain categories of transactions, or by specific licences issued on a case-by-case basis.

The appointment of the Trustee may be terminated in the circumstances set out in the Trust Deed.

The Trustee is entitled to the fees set out in "Fees and expenses payable by the HSI ETF" section and to be reimbursed for all costs and expenses in accordance with the provisions of the Trust Deed.

The Manager has sole responsibility for making investment decisions in relation to the Trust and/or the HSI ETF and subject to the terms of the Trust Deed and the requirements of the Code, the Trustee (including its delegate) is not responsible and has no liability for any investment decision made by the Manager. Except as provided in the Trust Deed or expressly stated in this Offering Document and/or required by the Code, neither the Trustee nor any of its employees, service providers or agents are or will be involved in the business affairs, organisation, sponsorship or investment management of the Trust or the HSI ETF, and they are not responsible for the preparation or issue of this Offering Document other than their description under this section.

Registrar

The registrar of the HSI ETF is HSBC Institutional Trust Services (Asia) Limited.

Conversion Agent or Service Agent

The Conversion Agent or Service 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 HKCAS performs services as conversion agent under the terms of the Conversion Agency Agreement entered into among the Manager, the HKCAS and HKSCC in connection with the in-kind creation and in-kind redemption of Units by Participating Dealers, and as service agent under the terms of each Service Agreement entered into among the Trustee, the Manager, the Registrar, the Participating Dealer, the agent of the Participating Dealer (if applicable), the HKCAS and HKSCC in connection with the cash creation and cash 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 creation and redemption applications for a large minimum number of 300,000 Units (or multiples thereof). The latest list of the Participating Dealers is available at www.hangsenginvestment.com (this website has not been reviewed by the SFC).

Market Makers

A market maker is a broker or dealer permitted by the SEHK to act as such by making a market for the Units in the secondary market and whose obligations include quoting bid prices to potential sellers and offer prices to potential buyers when there is a wide spread between the prevailing bid prices and offer prices for the Units on the SEHK. Market makers facilitate the efficient trading of Units by providing liquidity in the secondary market when it is required, in accordance with the market making requirements of the SEHK. If the 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 per counter to facilitate the efficient trading of Units of the relevant eligible currency (in HKD or RMB). The latest list of market makers is available at www.hkex.com.hk (this website has not been reviewed by the SFC). Please refer to the section headed "References to Websites" for the warning and the disclaimer regarding information contained in such website.

Hang Seng Data Services Limited

Hang Seng Data Services Limited (“**HSDS**”) is the proprietor and absolute owner of all of the goodwill, rights, title and interest in the name and mark of the Index and has granted a licence in respect of the use of such name and mark to Hang Seng Indexes Company Limited (“**HSIL**”), which manages and compiles the Index and is the index provider to the HSI ETF. Additional information about HSIL is available at www.hsi.com.hk (this website has not been reviewed by the SFC). Please refer to the section headed “References to Websites” for the warning and the disclaimer regarding information contained in such website.

Conflicts of Interest that may apply to the HSI ETF

The Manager and the Trustee may from time to time act as trustee, administrator, registrar, secretary, manager, custodian, investment manager or investment delegate (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 the 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, any investment delegate or any of their Connected Persons may enter into transactions with the HSI ETF as principal.

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

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

Monies for the account of the HSI ETF can be borrowed from any of the Trustee, the Manager, any investment delegate or any of their Connected Persons (being a bank) provided that such persons shall charge interest at no higher rate, and any fee for arranging or terminating the loan is of no greater amount, than is in accordance with its normal banking practice at the rate for a commercial loan of the size and nature of the loan in question negotiated at arm’s length.

Any arrangements for deposit of any monies for the account of the HSI ETF may be made with any of the Trustee, the Manager, any investment delegate or any of their Connected Persons being an institution licensed to accept deposits provided that such cash deposit shall be maintained in a manner that is in the best interests of the Unitholders having regard to the prevailing commercial rate for a deposit of similar type, size and term negotiated at arm’s length in accordance with the ordinary and normal course of business.

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

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

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

Subject to applicable rules and regulations, the Manager, its delegate or any of its connected persons may enter into portfolio transactions for or with the HSI ETF as agent in accordance with normal market practice, provided that commissions charged to the HSI ETF in these circumstances do not exceed customary full service brokerage rates. If a broker does not provide research or other lawful services in addition to brokerage execution, such broker will generally charge a brokerage commission that is discounted from customary full service brokerage rates. For so long as the HSI ETF is authorised by the SFC and it is an applicable requirement of the Code, the Manager, if

transacting with brokers or dealers connected to the Manager, investment delegates or any of their respective connected persons, must ensure it complies with the following obligations:

- (a) such transactions should be on arm's length terms;
- (b) it must use due care in the selection of brokers or dealers and ensure that they are suitably qualified in the circumstances;
- (c) transaction execution must be consistent with applicable best execution standards;
- (d) the fee or commission paid to any such broker or dealer in respect of a transaction must not be greater than that which is payable at the prevailing market rate for a transaction of that size and nature;
- (e) the Manager must monitor such transactions to ensure compliance with its obligations; and
- (f) the nature of such transactions and the total commissions and other quantifiable benefits received by such broker or dealer shall be disclosed in the annual report of the HSI ETF.

The Manager will take all reasonable steps to identify, prevent, manage and monitor any actual or potential conflicts of interest, including conducting all transactions in good faith at arm's length and in the best interest of the HSI ETF on normal commercial terms.

Taxes and Duties Payable by the HSI ETF

The information below regarding taxation and duties is based on the law and practice in force in Hong Kong and in the PRC at the date of this offering document.

Hong Kong

Profits Tax

As an Authorised Fund, profits of the 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 exempt 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 the HSI ETF by an investor as consideration for an allotment of Units will be remitted or refunded. Similarly, Hong Kong stamp duty on the transfer of a Basket by the HSI ETF to an investor upon redemption of Units will also be remitted or refunded.

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

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

The PRC

Corporate Income Tax

Under current PRC Corporate Income Tax Law and regulations, if the HSI ETF is considered as a PRC tax resident enterprise, it will be subject to PRC Corporate Income Tax ("CIT") at the rate of 25% on its worldwide taxable income. If the HSI ETF is considered as a non-PRC tax resident enterprise with an establishment or place of business (a "PE") in the Mainland, the profits attributable to that PE would be subject to CIT.

The Manager intends to manage and operate the HSI ETF in such a manner that the HSI ETF should not be treated as a PRC tax resident enterprise or non-PRC tax resident enterprise with a PE in the Mainland for CIT purposes, although this cannot be guaranteed.

Unless a specific exemption or reduction is available under current PRC tax laws and regulations or relevant tax

treaties, non-PRC tax resident enterprises without a PE in the Mainland are subject to CIT on a withholding basis (“WIT”), generally at a rate of 10%, to the extent it directly derives the PRC sourced passive income. PRC sourced passive income (such as dividend income) may arise from investments in the H-shares and/or certain red chips shares. Accordingly, the HSI ETF may be subject to WIT on any cash dividends it receives from its investment in H-shares and/or certain red chip shares. Such WIT will reduce the income from the HSI ETF and adversely affect the performance of the HSI ETF. The entity distributing or paying such PRC sourced passive income is required to withhold such tax. The Manager reserves the right to make relevant provision on dividends if the WIT is not withheld at source.

There are still uncertainties as to the application of the PRC Corporate Income Tax Law and its implementation rules. It is possible that the current tax laws, rules, regulations and practice in the Mainland and/or the current interpretation or understanding thereof may change in the future and such change(s) may have retrospective effect. Where no provision is made by the Manager in relation to all or part of the actual tax levied by the relevant PRC tax authorities in future, investors should note that the Net Asset Value of the HSI ETF may be lowered, as the HSI ETF will ultimately have to bear the full amount of tax liabilities. In this case, such amount of tax liabilities will only impact Units in issue at the relevant time, and the then existing Unitholders and subsequent Unitholders will be disadvantaged. The Manager reserves the right to provide for WIT and withhold the tax for the account of the HSI ETF if so warranted.

Value-Added Tax

With the Circular Caishui [2016] No. 36 (“**Circular 36**”) promulgated by the Ministry of Finance and the State Administration of Taxation of the PRC on 23 March 2016 regarding the final stage of PRC Value-Added Tax (“**VAT**”) reform which came into effect on 1 May 2016, gains derived from the trading of PRC securities will be subject to VAT instead of PRC Business Tax starting from 1 May 2016. If VAT is applicable, there may also be other surtaxes.

There are still uncertainties as to the application of the rules and regulations on the VAT and its surtaxes (e.g. it is not clear as to whether gains realised on the disposals of the HSI ETF’s investments in H-shares and red chips shares would be subject to VAT and its surtaxes). Where no provision is made by the Manager in relation to all or part of the actual taxes levied by the relevant PRC tax authorities in future, investors should note that the Net Asset Value of the HSI ETF may be lowered, as the HSI ETF will ultimately have to bear the full amount of tax liabilities. In this case, such amount of tax liabilities will only impact Units in issue at the relevant time, and the then existing Unitholders and subsequent Unitholders will be disadvantaged. The Manager reserves the right to provide for VAT and its surtaxes and withhold the taxes for the account of the HSI ETF if so warranted.

Please refer to the risk factor “PRC tax risk” for further information in this regard.

Taxes and Duties Payable by Investors

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

The information below regarding taxation and duties is based on the law and practice in force in Hong Kong at the date of this offering document. You should be aware that levels and bases of taxation are subject to change and that the value of any relief from taxation depends upon your personal circumstances. The following statements are intended as a general guide only and do not necessarily describe the tax consequences for all types of investors in the HSI ETF.

Hong Kong

Profits Tax

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

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

Distributions to the Unitholders are not subject to withholding taxes in Hong Kong.

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 the HSI ETF by an investor as consideration for an allotment of Units will be remitted or refunded. Similarly, Hong Kong stamp duty on the transfer of a Basket by the HSI ETF to an investor upon redemption of Units will also be remitted or refunded.

No Hong Kong stamp duty is payable by an investor in relation to an issue of Units (both RMB traded and HKD traded Units) to him or her or the redemption of Units (both RMB traded and HKD traded Units) by him or her or on the sale and purchase of Units (both RMB traded and HKD traded Units) by him or her in the secondary market.

Automatic Exchange of Financial Account Information

The Inland Revenue (Amendment) (No.3) Ordinance 2016 (the “**Amendment Ordinance**”), which is the legislative framework for the implementation of Automatic Exchange of Financial Account Information (the “**AEOI**”) in Hong Kong, came into force on 30 June 2016.

The AEOI is a new system that involves the transmission of financial account information from Hong Kong to an overseas tax jurisdiction with which Hong Kong has entered into an AEOI agreement³. Under the Amendment Ordinance, reporting financial institutions in Hong Kong are required to apply due diligence procedures to identify the tax residency of the account holders and controlling persons for the purpose of AEOI⁴ and collect the specified information. The financial institution is required to report to the Inland Revenue Department (the “**IRD**”) the required information collected in respect of the reportable accounts on an annual basis. IRD will then transmit the information to the tax administration of the relevant jurisdiction of which the account holder is tax resident⁵. Under the Amendment Ordinance, information that may be reported to the IRD includes details of account holders, including but not limited to their name, date of birth, place of birth (if any), address, jurisdiction of tax residence, tax identification number (if any), account number, account balance/value, distribution income and sales/redemption proceeds.

The HSI ETF, as a reporting financial institution, is required to, amongst other things:

- (i) conduct due diligence on its financial accounts to identify whether any such accounts are considered as “Reportable Accounts” for AEOI purpose; and
- (ii) report to the IRD the required information on such Reportable Accounts.

By investing and/or continuing to invest in the HSI ETF, Unitholders acknowledge that:

- (i) the IRD may automatically exchange information of the Unitholders (and information on controlling persons including beneficial owners, beneficiaries, direct or indirect shareholders or other persons associated with such Unitholders that are passive non-financial entities) as outlined above with relevant tax authorities in other jurisdictions;
- (ii) Unitholders may be required to provide additional information and/or documentation for AEOI purpose; and
- (iii) in the event that an Unitholder fails to provide the requested information and/or documentation, irrespective of

³ FAQ1 of the Frequently Asked Questions regarding the Automatic Exchange of Financial Account Information available at the website of the Inland Revenue Department (Version date: 26 March 2019) http://www.ird.gov.hk/eng/faq/dta_aeoi.htm

⁴ FAQ6 of the Frequently Asked Questions regarding the Automatic Exchange of Financial Account Information available at the website of the Inland Revenue Department (Version date: 26 March 2019) http://www.ird.gov.hk/eng/faq/dta_aeoi.htm

⁵ FAQ3 of the Frequently Asked Questions regarding the Automatic Exchange of Financial Account Information available at the website of the Inland Revenue Department (Version date: 26 March 2019) http://www.ird.gov.hk/eng/faq/dta_aeoi.htm

whether or not that actually leads to non-compliance on the part of the HSI ETF and/or the Manager, the Manager reserves the right to take remedial actions including, without limitation, to require the Unitholder to transfer the Unitholder's Units or, failing such transfer, redeem such Units in accordance with the Trust Deed, and to the extent permitted by applicable laws and regulations.

Unitholders and prospective investors should consult their professional advisers and obtain independent professional advice on the implications of AEOI on their current and/or proposed investment in the HSI ETF.

The United States of America – Foreign Account Tax Compliance Act (FATCA)

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

This withholding tax applies to payments to the HSI ETF that constitute interest, dividends and other types of income from U.S. sources (such as dividends paid by a U.S. corporation).

These FATCA withholding taxes may be imposed on payments to the HSI ETF unless (i) the HSI ETF becomes FATCA compliant pursuant to the provisions of FATCA and the relevant regulations, notices and announcements issued thereunder, or (ii) the HSI ETF is subject to an appropriate Intergovernmental Agreement to improve international tax compliance and to implement FATCA ("**IGA**").

Hong Kong and the U.S. have entered into an IGA for the implementation of FATCA, adopting "Model 2" IGA arrangements. Under these "Model 2" IGA arrangements, FFIs in Hong Kong (such as the HSI ETF) will be required to register with the U.S. Internal Revenue Service ("**IRS**") and comply with the terms of the FFI Agreement. Otherwise, they will be subject to a 30% withholding tax on relevant US-sourced payments to them. As a sponsoring entity, the Manager has registered with the U.S. IRS on behalf of the HSI ETF. The HSI ETF intends to take any other measures that may be required to ensure compliance under the terms of the IGA and local implementing regulations.

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

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

Other countries have adopted or are in the process of adopting tax legislation concerning the reporting of information, including AEOI as described above. The HSI ETF also intends to comply with such other similar tax legislation that may apply to the HSI ETF, although the exact parameters of such requirements are not yet fully known. As a result, the HSI ETF may need to seek information about the tax status of Unitholders under such other country's laws and each Unitholder for disclosure to the relevant governmental authority.

The disclosure in this section is based on advice received by the HSI ETF regarding the law and practice in force in the U.S. as at 9 November 2019. Unitholders/Investors should consult their own tax advisors regarding the FATCA requirements with respect to their own situation. In particular, investors who invest in the HSI ETF through intermediaries should confirm the FATCA compliance status of those intermediaries to ensure that they do not suffer FATCA withholding tax on their investment returns.

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

Trust Deed and Participation Agreements

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

Supply and Inspection of Documents

You may inspect a copy of the HSI ETF's constitutive documents, including the Trust Deed, the Delegation Agreement, the Delegation Letter, its agreement with the HKCAS 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 office of the Manager, 83 Des Voeux Road Central, Hong Kong and copies may be purchased at that address on payment of a reasonable fee.

Material Changes to the Index

The SFC should be consulted on any events that may affect the acceptability of the Index. Significant events relating to the Index will be notified to the Unitholders of the HSI ETF as soon as practicable. These may include a change in the methodology or rules for compiling or calculating the Index, or a change in the objective or characteristics of the Index.

Replacement of the Index

The Manager reserves the right, with the prior consent of the Trustee and the prior approval of the SFC and any other relevant regulator(s) and provided that in its opinion the interests of the Unitholders of the HSI ETF would not be adversely affected, to replace the Index with another index that is tradable and has similar objectives to the Index, in accordance with the provisions of the Code and the Trust Deed. The circumstances under which any such replacement might occur include but are not limited to the following events:

- (a) the Index is discontinued; or
- (b) the Manager's licence from the Index Proprietor and Index Provider to use the Index is terminated.

The Manager may change the name of the HSI ETF if the index changes or for any other reasons including if licence to use the Index is terminated. Any change to (i) the use by the HSI ETF of the Index and/or (ii) the name of the HSI ETF will be notified to Unitholders.

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.hangsenginvestment.com (this website has not been reviewed by the SFC) and via the SEHK's website www.hkex.com.hk (this website has not been reviewed by the SFC). 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 Manager accepts full responsibility for the accuracy of the information contained in this offering document (including the Product Key Facts Statement for the HSI ETF) as at the date of publication and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement misleading.

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.

Any unclaimed proceeds or other cash held by the Trustee under the provisions in the event of termination may at the expiration of twelve months from the date upon which the same became payable be paid into court subject to the right of the Trustee to deduct therefrom any expenses it may incur in making such payment.

References to Websites

The offer of the Units is made solely on the basis of information contained in this offering document (including the Product Key Facts Statement for the HSI ETF) and information on the HSI ETF from time to time published or announced on the SEHK's official website and the website www.hangsenginvestment.com (this website has not been reviewed by the SFC). All references in this offering document to other websites and sources where further information may be obtained are merely intended to assist you to access further information relating to the subject matter indicated and such information does not form part of this offering document. None of the Listing Agent, the Manager or the Trustee accepts any responsibility whatsoever for ensuring that the information contained in such other websites and sources, if available, is accurate, complete and/or up-to-date, and no liability is accepted by the Listing Agent, the Manager and the Trustee in relation to any person's use of or reliance on the information contained in these other websites and sources save, in respect of the Manager, its website www.hangsenginvestment.com (this website has not been reviewed by the SFC). The information and materials included in these websites have not been reviewed by the SFC or any regulatory body. You should exercise an appropriate degree of caution when assessing the value of such information.

Appendix 1 – Current Fees and Charges

(1) Fees and expenses payable by the HSI ETF

Management Fee ^	0.05% per annum
Trustee Fee ^	0.05% per annum on the first HKD600 million of the Net Asset Value; and 0.03% per annum on Net Asset Value in excess of HKD600 million.

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

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

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

(A) Fees and expenses payable by Participating Dealers for creation or redemption	Amount
Transaction fee	
(i) Cash creation / redemption	See Note 1
(ii) In-kind creation / redemption	See Note 2
Application Cancellation Fee	HKD10,000 (See Note 3)
Extension Fee	HKD10,000 (See Note 3)
Partial Delivery Request Fee	HKD10,000 (See Note 3)
Corporate action fee (in respect of in-kind creation / in-kind redemption only)	HKD0.80 per board lot (See Note 4)
Unit Cancellation Fee (in respect of in-kind redemption only)	HKD1.00 per board lot payable to HKCAS
All other Duties and Charges incurred by the Trustee or the Manager in connection with the creation or redemption	As applicable
(B) Fees and expenses payable by investors	Amount
(i) <i>Fees payable by clients of the Participating Dealers in respect of creations and redemptions (as applicable) via the Participating Dealer</i>	
Fees and charges imposed by the Participating Dealer	Such amounts as determined by the relevant Participating Dealer (See Note 5)
(ii) <i>Fees payable by all investors in respect of dealings in the Units on SEHK (applicable after listing)</i>	
Brokerage	Market rates
Transaction levy	0.0027% (See Note 6)

SEHK trading fee	0.005% (See Note 7)
Stamp duty	Nil
Inter-counter transfers	HKD5 (See Note 8)

Notes:

- (1) *The applicable amount is HKD3,000 per application plus a Service Agent's fee, currently in the amount of HKD1,000, payable to the Service Agent for each book-entry deposit or withdrawal transaction. A Participating Dealer may pass on to the relevant investor such Transaction Fee.*
- (2) *The applicable amount is up to HKD25,000 per Participating Dealer's aggregate creation or redemption on that day and the current amount is HKD15,000. This fee includes Conversion Agent's fee which ranges from HKD5,000 to HKD12,000 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
HKD1 to HKD2,000,000	HKD5,000
HKD2,000,001 to HKD5,000,000	HKD8,000
HKD5,000,001 to HKD10,000,000	HKD10,000
Over HKD10,000,000	HKD12,000

A Participating Dealer may pass on to the relevant investor such Transaction Fee.

- (3) *The applicable amount is up to HKD10,000 (actual amount at the Manager's discretion) per Participating Dealer for aggregate creation and redemption on that day.*
- (4) *The corporate action fee is payable to HKSCC in respect of any in-kind creation application and in-kind redemption application and is subject to a maximum of HKD10,000 and the tariff specified in the CCASS Operational Procedures in effect from time to time.*
- (5) *A Participating Dealer may increase or waive the level of its fees in its discretion. Information regarding these fees and charges is available upon request to the relevant Participating Dealer.*
- (6) *SFC transaction levy of 0.0027% of the trading price of the Units is payable by each of the buyer and the seller alike.*
- (7) *SEHK trading fee of 0.005% of the trading price of the Units is payable by each of the buyer and the seller alike.*
- (8) *HKSCC will charge each CCASS Participant a fee of HKD5 per instruction for effecting an inter-counter transfer of the HSI ETF between one counter and the other counter. Investors should check with their brokers regarding any additional fees.*

Appendix 2 – Information about the Hang Seng Index

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

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

Constituent stocks of the Index are selected by a rigorous process of detailed analysis.

Only companies with a primary listing on the Main Board of the SEHK are eligible potential constituents. The Mainland enterprises that have a H-share listing in Hong Kong will be eligible for inclusion in the Index if the company has no unlisted share capital.

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

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

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

The final selections are based on the following:

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

The Index is a total return index and a freefloat-adjusted market capitalisation weighted methodology is adopted for the calculation of the Index with a 10% cap on each constituent weighting.

As at 18 November 2019, the Index comprised 50 constituents with total market capitalization of HKD 8,787.9 billion.

Real-time update of the Index can be obtained through the SEHK Teletext System, Thomson Reuters, Bloomberg and the website of HSIL at www.hsi.com.hk (this website has not been reviewed by the SFC). The constituents of the Index together with their respective weightings, the Index methodology and other important news of the Index are available at HSIL website, www.hsi.com.hk (this website has not been reviewed by the SFC).

Please note:

- The list of constituent stocks which comprise the Index is reviewed by HSIL on a quarterly basis. The composition of the Index may change and be substituted with other companies as determined by HSIL if any of the constituent companies were to delist its shares.
- The accuracy and completeness of the calculation of Index may be affected if there is any problem with the system for the computation and/or compilation of the Index.
- Under the terms of the licence agreement regarding the use of the Index, the Manager will indemnify HSIL

and HSDS against, among other things, any loss of whatsoever nature which either of them may suffer (including in respect of any claim by any current, former or future Unitholder or investor) as a result of any act or omission of HSIL and HSDS in respect of or in connection with the trading in the HSI ETF, use of the Index in connection with such trading, computation of the Index, or any errors, mistakes or omissions in making such computation or in collecting or using relevant information for that purpose (except in cases of their wilful misconduct, bad faith or dishonesty). The Manager will also indemnify HSIL and HSDS on a full indemnity basis for, among other things, any loss which either of them may suffer as a result of any default by the Manager or any of its duly appointed agents in the performance and observance of the provisions of the license agreement and any misuse or unauthorised use of the Index. As the Manager is entitled to be indemnified from the assets of the HSI ETF in respect of any claims made against it including those in relation to the license agreement provided that such losses are not due to the negligence, default, breach of duty or trust on the part of the Manager, this may result in a decrease in the Net Asset Value of the HSI ETF.

Disclaimer

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Appendix 3 – Procedures for Creation and Redemption

Set out below is a summary of the provisions in the Trust Deed governing the cash and 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 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; or
- in exchange for a cash payment, by a Participating Dealer, of an amount equivalent to the aggregate of the Issue Price multiplied by the number of Units which is the subject of the cash creation application, provided that the Manager has the absolute discretion in deciding whether to accept such cash creation application.

The Manager has the right to reject a creation application or suspend receipt of creation applications 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.

Under the Dual Counter arrangement, a Participating Dealer may subject to arrangement with the Manager elect to CCASS to have Units which it creates deposited in either HKD counter or RMB counter. However, the cash creation of new Units in a special creation application is in HKD only and the Units created in a special creation application can be deposited in HKD counter only. 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 HKD (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.

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:

- 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;
- the Trustee and the Manager receive copies of the certifications required under the Participation Agreement in respect of the creation of new Units; and
- 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 account of the HSI ETF, the Trustee, the Registrar, the Conversion Agent and/or the Service Agent.

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:

- in relation to an in-kind creation application, 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; or
- in relation to a cash creation application, (i) the cash payment representing the aggregate of the Issue Price multiplied by the number of Units which is the subject of the cash creation application; or (ii) any 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 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 such other fees and amounts in accordance with the Participation Agreement (including the Operating Guidelines); 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 insufficient 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 (in HKD notwithstanding a Dual Counter being adopted for the HSI ETF) 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 (in HKD notwithstanding a Dual Counter being adopted for the HSI ETF) 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 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 the redemption application or (ii) the Manager has suspended the rights of Participating Dealers to make redemption applications pursuant to the Trust Deed.

Notwithstanding a Dual Counter being adopted for the HSI ETF, any cash proceeds received by a Feeder Fund in a special redemption application in cash shall be paid in HKD and only Units in the HKD counter can be withdrawn

directly in a special redemption application. However, both HKD traded Units and RMB traded Units may be redeemed by way of a redemption application through a Participating Dealer. Where a Participating Dealer wishes to redeem RMB traded Units the redemption process is the same as for HKD traded Units.

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 the 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; or
- upon the exercise of the Manager's discretion to accept the request for satisfaction of such redemption application by payment of cash, pay cash out of the HSI ETF of an amount equal to the aggregate of the Redemption Price multiplied by the number of Units which is the subject of the cash redemption application.

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 the 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 HKCAS 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 or other cash 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 base currency of 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 or cash payable 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 financial

report 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 or other cash 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 in-kind redemption application out of the deposited property of the HSI ETF or cash out of the HSI ETF equal to the relevant Redemption Price multiplied by the number of Units which is the subject of the cash redemption application 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 and cash 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 and for the account of the HSI ETF, the Trustee, the Registrar, the Conversion Agent and/or the Service Agent;
- the Manager may charge the Participating Dealer for the account of the HSI ETF an Application Cancellation Fee and such other fees and amounts in accordance with the Participation Agreement (including the Operating Guidelines); 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 and cash due to the Participating Dealer in respect of such redemption application(s)), for the account of the HSI ETF, Trustee, the Registrar, the Conversion Agent and/or the Service 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
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 (Chapter 571 of the Laws of Hong Kong) (SFC authorisation is not a recommendation or endorsement of a Collective Investment Scheme nor does it guarantee the commercial merits of a Collective Investment Scheme or its performance. It does not mean the Collective Investment Scheme is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.)
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
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
Code	the Code on Unit Trusts and Mutual Funds issued by the SFC, as amended from time to time and any successor instruments thereto
Collective Investment Scheme	has the same meaning as in the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

Connected Person	has the meaning as set out in the Code which at the date of this offering document means in relation to a company: <ul style="list-style-type: none"> (a) any person or company beneficially owning, directly or indirectly, 20% or more of the ordinary share capital of that company or able to exercise directly or indirectly, 20% or more of the total votes in that company; (b) any person or company controlled by a person who or which meets one or both of the descriptions given in (a); (c) any member of the group of which that company forms part; or (d) any director or officer of that company or of any of its connected persons as defined in (a), (b) or (c)
Conversion Agent	HKCAS, in its capacity as the conversion agent of the HSI ETF
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 Fund), 2:00 p.m. Hong Kong time on that Dealing Day (in the case of cash creation/redemption applications by the Participating Dealers) and 15 minutes after the official closing time of the SEHK on that Dealing Day (in the case of in-kind creation/redemption applications by the Participating Dealers), 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
Delegation Agreement	an agreement entered into between the Trustee and HSBC Provident Fund Trustee (Hong Kong) Limited, as amended and supplemented from time to time 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, and such agreement has been novated from HSBC Provident Fund Trustee (Hong Kong) Limited to HSBC Institutional Trust Services (Asia) Limited with effect from 1 May 2019
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
Dual Counter	the facility by which the Units of the HSI ETF traded in HKD and traded in RMB are each assigned separate stock codes on the SEHK and are accepted for deposit, clearing and settlement in CCASS in more than one eligible currency (HKD or RMB)

Duties and Charges	in relation to any particular transaction or dealing, all stamp and other duties, taxes, government charges, brokerage, trading fees, bank charges, transfer fees and registration fees, investor compensation levies and transaction levies and other duties and charges, whether in connection with the constitution of the deposited property or the increase or decrease of the deposited property, or the creation, issue, transfer, cancellation or redemption of Units, or the acquisition or disposal of the HSI ETF's investments, or otherwise which may have become or may be payable in respect of, and whether prior to, upon or after the occasion of, such transaction or dealing
entities within the same group	means entities which are included in the same group for the purposes of consolidated financial statements prepared in accordance with internationally recognised accounting standards.
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 a 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
FDI	financial derivative instrument which refers to financial instrument that derives its value from the value and characteristics of one or more underlying assets
Feeder Fund	the Hang Seng Index Tracking Fund
Government and other Public Securities	has the meaning as set out in the Code which at the date of this offering document means any investment issued by, or the payment of principal and interest on, which is guaranteed by a government, or any fixed-interest investment issued by its public or local authorities or other multilateral agencies
Hang Seng Index Tracking Fund	<p>a SFC authorised fund* investing solely in the HSI ETF, also approved by the Mandatory Provident Fund Schemes Authority, with the Manager acting as the investment manager and a constituent fund of the following schemes:</p> <p>Hang Seng Mandatory Provident Fund – Supertrust Plus HSBC Mandatory Provident Fund – Supertrust Plus</p> <p>* SFC authorisation is not a recommendation or endorsement of the Hang Seng Index Tracking Fund nor does it guarantee the commercial merits of the Hang Seng Index Tracking Fund or its performance. It does not mean the Hang Seng Index Tracking Fund is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.</p>
HKCAS	HK Conversion Agency Services Limited
HKD	Hong Kong dollars, the lawful currency of Hong Kong
HKEx	Hong Kong Exchanges and Clearing Limited or its successors
HKSCC	Hong Kong Securities Clearing Company Limited
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	Hang Seng Indexes Company Limited, the person responsible for managing and compiling the Index against which the HSI ETF benchmarks its investments
Index Security(ies)	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	21 September 2004, the date on which dealings in the Units commenced on the SEHK
Mainland	the mainland China
Manager	Hang Seng Investment Management Limited
money market instrument	securities normally dealt in on the money markets, as described in the Code and includes but is not limited to government bill, certificate of deposit, commercial paper, short-term note and bankers’ acceptance
Net Asset Value	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 Trustee, the Manager and a Participating Dealer (and its agent, if applicable), and if determined necessary by the Manager (in its absolute discretion), each of HKSCC and the Conversion Agent, setting out (amongst other things) the arrangements in respect of the issue of Units and the redemption and cancellation of Units
Participating Dealer	a broker or dealer who has entered into a Participation Agreement
Participating Dealer Application	an application by a Participating Dealer for a creation or redemption of Units through CCASS, in accordance with the procedures for creation and redemption of Units set out in the Operating Guidelines
PBOC	the People’s Bank of China
PRC	the People’s Republic of China, excluding for the purposes of interpretation of this offering document only, Hong Kong, Macau and Taiwan
Redemption Price	the price at which Units will be redeemed, as more fully described in

	“Calculation of Issue Price and Redemption Price”
Registrar	HSBC Institutional Trust Services (Asia) Limited
RMB	Renminbi Yuan, the lawful currency of the PRC
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
Service Agent	HKCAS, in its capacity as the service agent of the HSI ETF
SFC	the Securities and Futures Commission in Hong Kong
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 the Feeder Fund
Special Redemption Application	an application for the redemption of Units by the Feeder Fund
substantial financial institution	has the meaning as set out in the Code
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, the Trustee, the Registrar, the Conversion Agent and/or the Service Agent, (a) on each creation application and (b) on each 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	AIA Company (Trustee) Limited
Unit	one undivided share of the HSI ETF
Unitholder	the person for the time being entered on the register of holders as the holder of a Unit including, where the context so admits, persons jointly so registered
Unit Cancellation Fee	the fee charged by the HKCAS in respect of the cancellation of Units in connection with an accepted in-kind 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
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**DIRECTORS OF THE MANAGER
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* Please refer to the website www.hangsenginvestment.com (this website has not been reviewed by the SFC) for the latest lists of HKD counter Market Makers, RMB counter Market Makers and Participating Dealers.

Issued by Hang Seng Investment Management Limited (wholly-owned subsidiary of Hang Seng Bank)