

HealthShares™, Inc.

- exchange-traded funds

Product Description
March 5, 2007

Listed on the New York Stock Exchange

Advised by XShares Advisors LLC
Distributed by ALPS Distributors, Inc.
WHAT ARE HEALTHSHARES™?

HealthShares™, Inc. is an investment company with a series of 20 underlying fund portfolios (“Funds”), commonly known as exchange traded funds (“ETFs”). Each Fund offers shares, known as HealthShares™, that are listed on the New York Stock Exchange (“NYSE”). Because HealthShares™ are listed on the NYSE, they can be traded throughout the day at market-determined prices. ETFs, such as HealthShares™, typically invest predominantly in the securities of companies comprising an underlying index. As such, the ETF itself is an index fund.

Each Fund seeks to invest in a portfolio of securities that substantially replicates a particular benchmark (the “Underlying Index”) comprised of publicly-listed healthcare, life sciences and biotechnology companies within different vertical segments of the healthcare universe. The twenty HealthShares™ Funds are as follows:

Please Note: As of the Date of this Product Description, Shares of HealthShares™ Asian Health Exchange-Traded Fund, HealthShares™ Dermatology and Wound Care Exchange-Traded Fund, HealthShares™ European Drugs Exchange-Traded Fund, HealthShares™ European Medical Products and Devices Exchange-Traded Fund, HealthShares™ Infectious Disease Exchange-Traded Fund, and HealthShares™ Orthopedic Repair Exchange-Traded Fund are not currently being offered.

**HealthShares™
Fund Trading
Symbol**

Fund	HealthShares™ Fund Trading Symbol	Underlying Index
HealthShares™ Asian Health Exchange-Traded Fund	HRG	HealthShares™ Asian Healthcare Index
HealthShares™ Autoimmune-Inflammation Exchange-Traded Fund	HHA	HealthShares™ Autoimmune-Inflammation Index
HealthShares™ Cancer Exchange-Traded Fund	HHK	HealthShares™ Cancer Index
HealthShares™ Cardio Devices Exchange-Traded Fund	HHE	HealthShares™ Cardio Devices Index
HealthShares™ Cardiology Exchange-Traded Fund	HRD	HealthShares™ Cardiology Index
HealthShares™ Dermatology and Wound Care Exchange-Traded Fund	HRW	HealthShares™ Dermatology and Wound Care Index
HealthShares™ Diagnostics Exchange-Traded Fund	HHD	HealthShares™ Diagnostics Index
HealthShares™ Emerging Cancer Exchange-Traded Fund	HHJ	HealthShares™ Emerging Cancer Index
HealthShares™ Enabling Technologies Exchange-Traded Fund	HHV	HealthShares™ Enabling Technologies Index
HealthShares™ European Drugs Exchange-Traded Fund	HRJ	HealthShares™ European Drugs Index
HealthShares™ European Medical Products and Devices Exchange-Traded Fund	HHT	HealthShares™ European Medical Products and Devices Index
HealthShares™ GI/Gender Health Exchange-Traded Fund	HHU	HealthShares™ GI/Gender Health Index
HealthShares™ Infectious Disease Exchange-Traded Fund	HHG	HealthShares™ Infectious Disease Index
HealthShares™ Metabolic-Endocrine Disorders Exchange-Traded Fund	HHM	HealthShares™ Metabolic-Endocrine Disorders Index
HealthShares™ Neuroscience Exchange-Traded Fund	HHN	HealthShares™ Neuroscience Index

HealthShares™ Ophthalmology Exchange-Traded Fund	HHZ	HealthShares™ Ophthalmology Index
HealthShares™ Orthopedic Repair Exchange-Traded Fund	HHP	HealthShares™ Orthopedic Repair Index
HealthShares™ Patient Care Services Exchange-Traded Fund	HHB	HealthShares™ Patient Care Services Index
HealthShares™ Respiratory/Pulmonary Exchange-Traded Fund	HHR	HealthShares™ Respiratory/Pulmonary Index
HealthShares™ Composite Exchange-Traded Fund	HHQ	HealthShares™ Composite Index

WHAT ARE THE INVESTMENT OBJECTIVES AND STRATEGIES OF THE HEALTHSHARES™ FUNDS?

Each Fund’s investment objective is to seek to track the performance, before fees and expenses, of its Underlying Index. Each of the Underlying Indexes seeks to measure the performance of publicly-listed healthcare, life sciences and biotechnology companies. Each Fund invests all, or substantially all, of its assets in stocks that make up the index, seeking to hold each stock in the same proportion as its weighting in the index. In managing the Funds, XShares Advisors LLC (the “Advisor”) seeks a correlation of 0.95 or better between each Fund’s performance and the performance of the Underlying Index. A figure of 1.00 would represent perfect correlation.

Each Underlying Index was created by XShares Group LLC (“XShares Group”), the parent of the Advisor, using a patent pending investment approach known as “Vertical Investing.” “Vertical Investing” seeks to categorize companies within a particular healthcare, life sciences or biotechnology index by focusing on each company’s business activities with regard to the diagnosis of diseases, the developments of drugs, treatments, therapies, delivery systems and the development of enabling/research tools and technologies for use in the healthcare, life sciences or biotechnology sectors.

Each Fund is focused on one of these vertical indexes and will provide both institutional and retail investors with the ability to invest in the complex and rapidly evolving sectors of healthcare, life sciences, and biotechnology. Based on its own proprietary intellectual model, XShares Group has established specific, defined characterization/inclusion/exclusion criteria (the “Index Methodology”) that an issuer must meet in order to be included in an Underlying Index. Each Underlying Index will be administered by Standard & Poor’s (the “Index Administrator”), which will employ the Index Methodology to determine the composition of each Underlying Index.

XShares Advisors LLC is the investment adviser to the Funds. BNY Investment Advisers acts as the investment sub-adviser to the Funds and will be responsible for the day-to-day management of each Fund’s portfolio, which involves principally reconfiguring the portfolio of each Fund,

typically quarterly, to reflect any reconfiguration in the Underlying Index by the Index Administrator.

The Advisor and Sub-Advisor use a passive, or indexing, approach in managing the Funds. Unlike many mutual funds, the Funds do not seek to outperform any particular market sector and will not assume temporary defensive positions when markets decline or appear overvalued. Each Fund will invest at least 90% of its assets in the common stocks of companies in the Underlying Index, or in American Depositary Receipts (“ADRs”) or Global Depositary Receipts (“GDRs”) based on securities of international companies in the Underlying Index. Because each Underlying Index, with the exception of HealthShares™ Composite Index, is comprised only of stocks as indicated by its name (*e.g.*, only “diagnostics” companies are contained in the HealthShares™ Diagnostics Exchange-Traded Fund), each Fund will invest at least 90% of its assets in such companies. The Funds will provide shareholders with at least 60 days’ notice of any change in these policies. Each Fund may also invest up to 10% of its assets in futures contracts, options on futures contracts, options, swaps on securities of companies in the Underlying Index, as well as cash and cash equivalents, such as money market instruments (subject to applicable limitations of the Investment Company Act of 1940, as amended (the “1940 Act”).

From time to time, it may not be possible, for regulatory or other legal reasons, to replicate the Underlying Index and in such cases the Advisor may pursue a sampling strategy in managing the portfolio. Pursuant to this strategy, a Fund may invest the remainder of its assets in securities of companies not included in an Underlying Index if the Advisor believes that such securities will assist the Fund in tracking the Underlying Index. If a Fund pursues a sampling strategy, it will continue to invest at least 90% of its assets in the common stocks, ADRs or GDRs of the companies in the Underlying Index.

The following is a summary of the principal investment policies, strategies and risks of each of the Funds. Further information about the Funds and their risks can be found in the Funds Prospectus and Statement of Additional Information which may be obtained free of charge from the investor’s broker or from the Funds’ distributor, ALPS Distributors, Inc. (“ADI”) upon request by calling 800-925-2870 or on the Fund’s website at www.healthsharesinc.com.

HealthShares™ Asian Health Exchange-Traded Fund (HRG)

The HealthShares™ Asian Health Exchange-Traded Fund is not currently being offered.

Principal strategy:

The Fund employs a "passive management" investment strategy designed to track the performance of the HealthShares™ Asian Healthcare Index, an index of foreign common stocks of healthcare, life sciences or biotechnology companies that have been identified as "Asian healthcare" companies by the Index Administrator and therefore are included in the HealthShares™ Asian Healthcare Index. An Asian Healthcare company is a company headquartered in Japan, China, India, South Korea, Taiwan, Singapore, Thailand, Malaysia, Indonesia, Philippines or Hong Kong. Additionally, the company must be quoted on at least one Asian Stock Exchange, excluding all issuers listed solely on the Osaka Stock Exchange and all issuers that are foreign corporate subsidiaries of North American, Australian or European issuers.

The issuers must be engaged in the research/clinical development/manufacturing/and commercialization of pharmaceutical products, the in vivo or in vitro diagnostic identification and analysis of disease in humans, or the research, development, manufacture, distribution and commercialization of medical devices and/or products for the treatment or amelioration of human disorders and diseases.

FUND OPERATING EXPENSES

Total Fund operating expenses prior to expense reduction/reimbursement: 1.29%

Total Fund operating expenses after expense reduction/reimbursement: .95%

HealthShares™ Autoimmune-Inflammation Exchange-Traded Fund (HHA)

Principal strategy:

The Fund employs a "passive management" investment strategy designed to track the performance of the HealthShares™ Autoimmune-Inflammation Index, an index of U.S. and foreign common stocks of healthcare, life sciences or biotechnology companies that have been identified as "autoimmune-inflammation" companies by the Index Administrator and therefore are included in the HealthShares™ Autoimmune-Inflammation Index. An Autoimmune-Inflammation company is a company involved in the research, clinical development and/or commercialization of therapeutic agents for the treatment of inflammatory diseases such as osteoarthritis and autoimmune disorders including, but not limited to, rheumatoid arthritis, allergies, multiple sclerosis, psoriasis and lupus.

FUND OPERATING EXPENSES

Total Fund operating expenses prior to expense reduction/reimbursement: 1.09%

Total Fund operating expenses after expense reduction/reimbursement: .75%

HealthShares™ Cancer Exchange-Traded Fund (HHK)

Principal strategy:

The Fund employs a "passive management" investment strategy designed to track the performance of the HealthShares™ Cancer Index, an index of U.S. and foreign common stocks of healthcare, life sciences or biotechnology companies that have been identified as "cancer" companies by the Index Administrator and therefore are included in the HealthShares™ Cancer Index. A Cancer company is a company involved in the research, clinical development and/or commercialization of therapeutic agents for the treatment of a wide variety of cancers. Companies in this index generally include those with substantial revenues and significant research and development programs.

FUND OPERATING EXPENSES

Total Fund operating expenses prior to expense reduction/reimbursement: 1.09%

Total Fund operating expenses after expense reduction/reimbursement: .75%

HealthShares™ Cardio Devices Exchange-Traded Fund (HHE)

Principal strategy:

The Fund employs a "passive management" investment strategy designed to track the performance of the HealthShares™ Cardio Devices Index, an index of U.S. and foreign common stocks of healthcare, life sciences or biotechnology companies that have been identified as "cardio devices" companies by the Index Administrator and therefore are included in the HealthShares™ Cardio Devices Index. A Cardio Device company is a company involved in the manufacture, distribution, and commercialization of medical devices for the treatment of cardiac, vascular, and endovascular disorders and diseases, including but not limited to stents, valves, patches, pumps, defibrillators, pacemakers, sutures and sensors/chips.

FUND OPERATING EXPENSES

Total Fund operating expenses prior to expense reduction/reimbursement: 1.09%

Total Fund operating expenses after expense reduction/reimbursement: .75%

HealthShares™ Cardiology Exchange-Traded Fund (HRD)

Principal strategy:

The Fund employs a "passive management" investment strategy designed to track the performance of the HealthShares™ Cardiology Index, an index of U.S. and foreign common stocks of healthcare, life sciences or biotechnology companies that have been identified as "cardiology" companies by the Index Administrator and therefore are included in the HealthShares™ Cardiology Index. A Cardiology company is a company involved in the research, clinical development and/or commercialization of therapeutic agents for the treatment of cardiological indications including, but not limited to, atherosclerosis, coronary artery disease, congestive heart failure, stroke, hypertension, thrombosis and restenosis.

FUND OPERATING EXPENSES

Total Fund operating expenses prior to expense reduction/reimbursement: 1.09%

Total Fund operating expenses after expense reduction/reimbursement: .75%

HealthShares™ Dermatology and Wound Care Exchange-Traded Fund (HRW)

The HealthShares™ Dermatology and Wound Care Exchange-Traded Fund is not currently being offered.

Principal strategy:

The Fund employs a "passive management" investment strategy designed to track the performance of the HealthShares™ Dermatology and Wound Care Index, an index of U.S. and foreign common stocks of healthcare, life sciences or biotechnology companies that have been identified as "dermatology and wound care" companies by the Index Administrator and therefore are included in the HealthShares™ Dermatology and Wound Care Index. A Dermatology and Wound Care company is a company involved in the research, clinical development and/or commercialization of therapeutic agents for the treatment of a wide variety of skin disorders by topical or systemic means. Targeted diseases include, but not limited to, acne, rosacea, psoriasis, genital warts and atopic dermatitis.

FUND OPERATING EXPENSES

Total Fund operating expenses prior to expense reduction/reimbursement: 1.09%

Total Fund operating expenses after expense reduction/reimbursement: .75%

HealthShares™ Diagnostics Exchange-Traded Fund (HHD)

Principal Strategy:

The Fund employs a "passive management" investment strategy designed to track the performance of the HealthShares™ Diagnostics Index, an index of U.S. and foreign common stocks of healthcare, life sciences or biotechnology companies that have been identified as "diagnostics" companies by the Index Administrator and therefore are included in the HealthShares™ Diagnostics Index. A Diagnostics company is a company involved in the identification of the existence and extent of a disease, the visual localization of a disease by way of imaging, the selection of therapeutic agents appropriate for the disease wherever possible and the monitoring of disease progression/therapeutic efficacy.

FUND OPERATING EXPENSES

Total Fund operating expenses prior to expense reduction/reimbursement: 1.09%

Total Fund operating expenses after expense reduction/reimbursement: .75%

HealthShares™ Emerging Cancer Exchange-Traded Fund (HHJ)

Principal Strategy:

The Fund employs a "passive management" investment strategy designed to track the performance of the HealthShares™ Emerging Cancer Index, an index of U.S. and foreign common stocks of healthcare, life sciences or biotechnology companies that have been identified as "emerging cancer" companies by the Index Administrator and therefore are included in the HealthShares™ Emerging Cancer Index. An Emerging Cancer company is a mid-sized company involved in the research, clinical development and/or commercialization of therapeutic agents for the treatment of a wide variety of cancers. Companies in this index generally include those with some level of revenues, or those on the verge of revenues with significant but focused research and development programs.

FUND OPERATING EXPENSES**Total Fund operating expenses prior to expense reduction/reimbursement: 1.09%****Total Fund operating expenses after expense reduction/reimbursement: .75%****HealthShares™ Enabling Technologies Exchange-Traded Fund (HHV)****Principal Strategy:**

The Fund employs a "passive management" investment strategy designed to track the performance of the HealthShares™ Enabling Technologies Index, an index of U.S. and foreign common stocks of healthcare, life sciences or biotechnology companies that have been identified as "enabling technologies" companies by the Index Administrator and therefore are included in the HealthShares™ Enabling Technologies Index. An Enabling Technologies company is a company that provides technology products and/or services that enable and support the discovery, clinical development and manufacturing activities of pharmaceutical and biotechnology companies, including but not limited to genomics, proteomics, and high throughput screening.

FUND OPERATING EXPENSES**Total Fund operating expenses prior to expense reduction/reimbursement: 1.09%****Total Fund operating expenses after expense reduction/reimbursement: .75%****HealthShares™ European Drugs Exchange-Traded Fund (HRJ)**

The HealthShares™ European Drugs Exchange-Traded Fund is not currently being offered.

Principal strategy:

The Fund employs a "passive management" investment strategy designed to track the performance of the HealthShares™ European Drugs Index, an index of foreign common stocks of healthcare, life sciences or biotechnology companies that have been identified as "European drug" companies by the Index Administrator and therefore are included in the HealthShares™ European Drugs Index. A European Drug company is a company headquartered in Europe and quoted on at least one European Stock Exchange that is involved in the research/clinical development/manufacturing/ and commercialization of pharmaceutical products, small molecule/chemical moieties, biologics (proteins, peptides, oligoneucleotides, and cell/gene therapies) and vaccines, in all therapeutic categories, primarily intended for humans.

FUND OPERATING EXPENSES**Total Fund operating expenses prior to expense reduction/reimbursement: 1.29%****Total Fund operating expenses after expense reduction/reimbursement: .95%**

HealthShares™ European Medical Products and Devices Exchange-Traded Fund (HHT)

The HealthShares™ European Medical Products and Devices Exchange-Traded Fund is not currently being offered.

Principal strategy:

The Fund employs a "passive management" investment strategy designed to track the performance of the HealthShares™ European Medical Products and Devices Index, an index of foreign common stocks of healthcare, life sciences or biotechnology companies that have been identified as "European medical products and devices" companies by the Index Administrator and therefore are included in the HealthShares™ European Medical Products and Devices Index. A European Medical Products and devices company is a company headquartered in Europe and quoted on at least one European Stock Exchange and is involved in the research, development, manufacture, distribution and commercialization of medical devices and/or products for the treatment or amelioration of human disorders and diseases.

FUND OPERATING EXPENSES

Total Fund operating expenses prior to expense reduction/reimbursement: 1.29%

Total Fund operating expenses after expense reduction/reimbursement: .95%

HealthShares™ GI/Gender Health Exchange-Traded Fund (HHU)

Principal strategy:

The Fund employs a "passive management" investment strategy designed to track the performance of the HealthShares™ GI/Gender Health Index, an index of U.S. and foreign common stocks of healthcare, life sciences or biotechnology companies that have been identified as "gastrointestinal/genitourinary/gender health" companies by the Index Administrator and therefore are included in the HealthShares™ GI/Gender Health Index. A GI/Gender Health company is a company involved in the research, clinical development and/or commercialization of therapeutic agents for the treatment of a wide variety of diseases including gastrointestinal disorders such as gastroesophageal reflux disease, heartburn, irritable bowel syndrome, Crohn's Disease and ulcerative colitis; genitourinary disorders, such as overactive bladder, urge incontinence, stress incontinence and urinary tract infection; and gender health matters including sexual dysfunction (male and female), endometriosis, benign prostatic hyperplasia, prolapsed womb and reproductive health.

FUND OPERATING EXPENSES

Total Fund operating expenses prior to expense reduction/reimbursement: 1.09%

Total Fund operating expenses after expense reduction/reimbursement: .75%

HealthShares™ Infectious Disease Exchange-Traded Fund (HHG)

The HealthShares™ Infectious Disease Exchange-Traded Fund is not currently being offered.

Principal strategy:

The Fund employs a "passive management" investment strategy designed to track the performance of the HealthShares™ Infectious Disease Index, an index of U.S. and foreign common stocks of healthcare, life sciences or biotechnology companies that have been identified as "infectious disease" companies by the Index Administrator and therefore are included in the HealthShares™ Infectious Disease Index. An Infectious Disease company is a company involved in the research, clinical development and/or commercialization of therapeutic agents for the treatment of a wide variety of infectious diseases related to antibacterial, antifungal and antiviral indications, by means of small molecules, protein therapy and vaccines.

FUND OPERATING EXPENSES

Total Fund operating expenses prior to expense reduction/reimbursement: 1.09%

Total Fund operating expenses after expense reduction/reimbursement: .75%

**HealthShares™ Metabolic-Endocrine Disorders Exchange-Traded Fund
(HHM)**

Principal strategy:

The Fund employs a "passive management" investment strategy designed to track the performance of the HealthShares™ Metabolic-Endocrine Disorders Index, an index of U.S. and foreign common stocks of healthcare, life sciences or biotechnology companies that have been identified as "metabolic-endocrine disorders" companies by the Index Administrator and therefore are included in the HealthShares™ Metabolic-Endocrine Disorders Index. A Metabolic-Endocrine Disorders company is a company involved in the research, clinical development and/or commercialization of therapeutic agents for the treatment of a wide variety of metabolic-endocrine disorders including, but not limited to, diabetes, obesity, Syndrome X, growth deficiency and rare lysosomal disorders.

FUND OPERATING EXPENSES

Total Fund operating expenses prior to expense reduction/reimbursement: 1.09%

Total Fund operating expenses after expense reduction/reimbursement: .75%

HealthShares™ Neuroscience Exchange-Traded Fund (HHN)

Principal strategy:

The Fund employs a "passive management" investment strategy designed to track the performance of the HealthShares™ Neuroscience Index, an index of U.S. and foreign common stocks of healthcare, life sciences or biotechnology companies that have been identified as "neuroscience" companies by the Index Administrator and therefore are included in the

HealthShares™ Neuroscience Index. A Neuroscience company is a company involved in the research, clinical development and/or commercialization of therapeutic agents for the treatment of a wide variety of neurological and psychiatric disorders including, but not limited to, Alzheimer's, Parkinson's, Huntington's, schizophrenia, anxiety, depression, epilepsy, pain and sleep disorders.

FUND OPERATING EXPENSES

Total Fund operating expenses prior to expense reduction/reimbursement: 1.09%

Total Fund operating expenses after expense reduction/reimbursement: .75%

HealthShares™ Ophthalmology Exchange-Traded Fund (HHZ)

Principal strategy:

The Fund employs a "passive management" investment strategy designed to track the performance of the HealthShares™ Ophthalmology Index, an index of U.S. and foreign common stocks of healthcare, life sciences or biotechnology companies that have been identified as "ophthalmology" companies by the Index Administrator and therefore are included in the HealthShares™ Ophthalmology Index. An Ophthalmology company is a company involved in the research, clinical development and/or commercialization of therapeutic agents by means of pharmaceuticals, medical devices or biomaterials for the treatment of various diseases of the eye including, but not limited to, age-related macular degeneration, dry-eye, diabetic macular edema, glaucoma, presbyopia and myopia.

FUND OPERATING EXPENSES

Total Fund operating expenses prior to expense reduction/reimbursement: 1.09%

Total Fund operating expenses after expense reduction/reimbursement: .75%

HealthShares™ Orthopedic Repair Exchange-Traded Fund (HHP)

The HealthShares™ Orthopedic Repair Exchange-Traded Fund is not currently being offered.

Principal strategy:

The Fund employs a "passive management" investment strategy designed to track the performance of the HealthShares™ Orthopedic Repair Index, an index of U.S. and foreign common stocks of healthcare, life sciences or biotechnology companies that have been identified as "orthopedic repair" companies by the Index Administrator and therefore are included in the HealthShares™ Orthopedic Repair Index. An Orthopedic Repair health company is a company involved in the manufacturing, distribution, and commercialization of medical devices, pharmaceuticals and regenerative medicine for the treatment of bone, cartilage, tendon, muscle,

ligament, maxillofacial and dental elements, excluding periodontal and skin conditions or disorders.

FUND OPERATING EXPENSES

Total Fund operating expenses prior to expense reduction/reimbursement: 1.09%

Total Fund operating expenses after expense reduction/reimbursement: .75%

HealthShares™ Patient Care Services Exchange-Traded Fund (HHB)

Principal Strategy:

The Fund employs a "passive management" investment strategy designed to track the performance of the HealthShares™ Patient Care Services Index, an index of U.S. and foreign common stocks of healthcare, life sciences or biotechnology companies that have been identified as "patient care services" companies by the Index Administrator and therefore are included in the HealthShares™ Patient Care Services Index. A Patient Care Services company is a company involved in providing direct treatment of patients in hospitals, outpatient clinics, nursing homes, assisted living centers, treatment facilities or home health providers and the companies involved in providing supplies and services to these facilities.

FUND OPERATING EXPENSES

Total Fund operating expenses prior to expense reduction/reimbursement: 1.09%

Total Fund operating expenses after expense reduction/reimbursement: .75%

HealthShares™ Respiratory/Pulmonary Exchange-Traded Fund (HHR)

Principal strategy:

The Fund employs a "passive management" investment strategy designed to track the performance of the HealthShares™ Respiratory/Pulmonary Index, an index of U.S. and foreign common stocks of healthcare, life sciences or biotechnology companies that have been identified as "respiratory/pulmonary" companies by the Index Administrator and therefore are included in the HealthShares™ Respiratory/Pulmonary Index. A Respiratory/Pulmonary company is a company involved in the research/development and/or commercialization of therapeutic agents treating various respiratory and/or pulmonary diseases including, but not limited to, asthma, chronic obstructive pulmonary disease, emphysema, tuberculosis and pulmonary arterial hypertension.

FUND OPERATING EXPENSES

Total Fund operating expenses prior to expense reduction/reimbursement: 1.09%

Total Fund operating expenses after expense reduction/reimbursement: .75%

HealthShares™ Composite Exchange-Traded Fund (HHQ)

Principal strategy:

The Fund employs a "passive management" investment strategy designed to track the performance of the HealthShares™ Composite Index, an index of U.S. and foreign common stocks of healthcare, life sciences or biotechnology companies that have been included in the HealthShares™ Autoimmune-Inflammation Index, the HealthShares™ Cancer Index, the HealthShares™ Cardio Devices Index, HealthShares™ Cardiology Index, the HealthShares™ Dermatology and Wound Care Index, the HealthShares™ Diagnostics Index, the HealthShares™ Emerging Cancer Index, the HealthShares™ Enabling Technologies Index, the HealthShares™ GI/Gender Health Index, the HealthShares™ Infectious Disease Index, the HealthShares™ Metabolic-Endocrine Disorders Index, the HealthShares™ Neuroscience Index, the HealthShares™ Ophthalmology Index, the HealthShares™ Orthopedic Repair Index, the HealthShares™ Patient Care Services Index and the HealthShares™ Respiratory/Pulmonary Index (collectively, the "Composite Eligible Indexes") by the Index Administrator and therefore are included in the HealthShares™ Composite Index. The HealthShares™ Composite Index will consist of stocks of the 80 largest companies by market capitalization taken from the top five companies in market capitalization from each of the Composite Eligible Indexes, arranged in alphabetical order. In the event a company is selected from more than one Index, it shall be included in the Composite Index only from the first alphabetical Index in which it appears and will be replaced in later alphabetical Indices by the next largest company by market capitalization.

FUND OPERATING EXPENSES

Total Fund operating expenses prior to expense reduction/reimbursement: 1.09%

Total Fund operating expenses after expense reduction/reimbursement: .75%

MORE INFORMATION ABOUT HEALTHSHARES™ OPERATING EXPENSES

What is the expense reduction/reimbursement?

The Advisor has contractually agreed to reduce its fees and/or pay Fund expenses (excluding interest, taxes and extraordinary expenses) in order to limit the operating expenses for shares of each of the Funds to 0.75% of each Fund's average net assets (the "Expense Cap") (except for the HealthShares™ Asian Health Exchange-Traded Fund, HealthShares™ European Drugs Exchange-Traded Fund and HealthShares™ European Medical Products and Devices Exchange-Traded Fund, in which the operating expenses for shares of each Fund is limited to 0.95% of each Fund's average net assets). The Expense Cap will remain in effect until at least September 30, 2007. The Advisor is permitted to be reimbursed for fee reductions and/or expense payments made in the prior three fiscal years. This reimbursement may be requested by the Advisor if the aggregate amount actually paid by each Fund toward operating expenses for such fiscal year (taking into account the reimbursement) does not exceed the Expense Cap.

WHAT ARE THE RISKS OF OWNING HEALTHSHARES™?

Risks Applicable to all the Funds

- The Funds are subject to **stock market risk**, which is the risk that stock prices will decline over a given period of time. The Funds' total return, like stock prices generally, will fluctuate within a wide range, so an investor could lose money over short or even long periods. Stock markets tend to be volatile, with periods of rising prices and periods of falling prices.
- The Funds are subject to **index risk**, which is the risk that stocks in the Underlying Index may under-perform fixed income investments or stock market investments that track other markets, segments or sectors. The Advisor does not actively manage the Funds and therefore does not attempt to analyze, quantify or control the risks associated with investing in stocks of companies in the Underlying Index.
- The Funds are subject to **sector risk**, which is the risk that significant problems will affect the sector represented in the Underlying Index, or that returns from that sector will trail returns from the overall stock market. Daily fluctuations in specific market sectors are often more extreme than fluctuations in the overall stock market. Because the Funds invest substantially all of their assets in the healthcare, life sciences and biotechnology sectors, each Fund's performance largely depends—for better or for worse—on the general condition of these sectors. Healthcare, life sciences and biotechnology companies face intense competition, both domestically and internationally. Healthcare, life sciences and biotechnology companies may have limited product lines, markets, financial resources or personnel and their products may face obsolescence due to rapid technological developments and frequent new product introduction. Healthcare, life sciences and biotechnology companies may face dramatic and often unpredictable changes in growth rates and competition for the services of qualified personnel. Companies in the healthcare, life sciences and biotechnology sectors are heavily dependent on patent and intellectual property rights. The loss or impairment of these rights may adversely affect the profitability of these companies.

The healthcare sector is also subject to government regulation and government approval of products and services which could have a significant adverse effect on price and availability. Furthermore, the types of products or services produced or provided by healthcare companies can quickly become obsolete.

The biotechnology sector can be significantly affected by patent considerations, intense competition, rapid technology change and obsolescence caused by progressive scientific and technological advances as well as strict government scrutiny and ongoing legislative action in the U.S. and abroad. Biotechnology companies may have persistent losses during a new product's transition from development to production, and revenue may be erratic, or even non-existent.

- The Funds are subject to **non-diversification risk**, which is the risk associated with the fact that the Funds are non-diversified and may concentrate their investments in fewer issuers than if they were diversified. As a result, the Funds are more susceptible to the

risks associated with those investments, including the risk that a Fund's performance may be hurt by the poor performance of relatively few stocks or even a single stock to a greater extent than if the Funds were diversified.

- The Funds are subject to **investment style risk**, which is the risk that, to the extent that a Fund's assets are invested in small- and mid-capitalization stocks, the returns from these small- and mid-capitalization stocks will trail returns from the overall stock market. Historically, these stocks have been more volatile in price than the large-capitalization stocks.
- The Funds are subject to **index sampling risk**, which is the risk that, when employing a sampling strategy, the stocks held by the Funds will not provide investment performance tracking the Underlying Index.
- The Funds are subject to **market price risk**, which is the risk associated with the fact that the Funds' shares are listed on the NYSE and can be bought and sold in the secondary market at market prices. Although it is expected that the market price of the Funds' shares typically will approximate their NAV, there may be times when the market price and the NAV differ significantly. Thus, an investor may pay more than NAV when buying the Funds' shares on the secondary market, and you may receive less than NAV when you sell the Funds' shares.
- The Funds are subject to **foreign securities risk**, which is the risk that political and economic events unique to a foreign country or region will affect those markets and their issuers. These events will not necessarily affect the United States economy or similar issuers located in the United States. In addition, investments in foreign countries are generally denominated in a foreign currency. As a result, changes in the value of those currencies compared to the United States dollar may affect (positively or negatively) the value of a Fund's investments. These currency movements may happen separately from and in response to events that do not otherwise affect the value of the security in the issuer's home country.
- The Funds are subject to **secondary market risk**. Although the Funds' shares are listed for trading on the NYSE, it is possible that an active trading market may not be maintained. Trading of the Funds' shares on the NYSE may be halted if NYSE officials deem such action appropriate, if the Funds' shares are delisted from the NYSE or if the activation of market-wide "circuit breakers" halts stock trading generally.
- The Funds are subject to **derivatives risk**, which is the risk associated with stock futures and options contracts, warrants, convertible securities, and swap agreements, which are types of derivatives. Investments in derivatives may subject the Funds to risks different from, and possibly greater than, those of the underlying securities, assets, or market indexes.

Risks particularly applicable to specific Funds

In addition to the general risks described above, certain Funds may be subject to certain additional risks which are described below.

- The HealthShares™ Asian Health Exchange-Traded Fund is subject to **geographic concentration** and **emerging market risk**. This Fund will invest substantially all of its assets in the securities of companies located in Asia and therefore will be impacted by events and conditions impacting the Asian region to a greater extent than a fund that does not focus its investments in Asia. For example, political and economic conditions and changes in regulatory, tax, or economic policy in an Asian country could significantly affect the market in that country and in surrounding or related countries. The Asian economies are in all stages of economic development. The majority of the economies in the region can be characterized as either developing or newly industrialized. The Fund is also subject to risk particular to the Japanese economy, which has only recently emerged from a prolonged economic downturn. Certain Asian countries in which the Fund may invest are considered to be emerging market countries and therefore the Fund is subject to emerging market risk. Emerging Market countries are countries that the World Bank or the United Nations considers to be emerging or developing. Emerging markets may be more likely to experience political turmoil or rapid changes in market or economic conditions than more developed countries.
- The HealthShares™ European Drugs Exchange-Traded Fund and the HealthShares™ European Medical Products and Devices Exchange-Traded Fund are subject to **geographic concentration risk**. These Funds will invest all of their assets in the securities of European companies and therefore will be impacted by events and conditions impacting the European region to a greater extent than a fund that does not focus its investments in Europe. For example, political and economic conditions and changes in regulatory, tax, or economic policy in a European country could significantly affect the market in that country and in surrounding or related countries.

HOW ARE HEALTHSHARES™ DIFFERENT FROM TRADITIONAL MUTUAL FUND SHARES?

There are significant differences between conventional mutual fund shares and the Funds' shares. Traditional mutual fund shares are issued by, and redeemed from, a fund at any time for cash at the shares' net asset value ("NAV"). NAV is typically calculated only once a day and reflects a fund's total assets, less its liabilities, divided by the number of shares it has outstanding. In determining the value of its assets, a traditional mutual fund typically values its underlying securities as of the close of trading on the NYSE. As a result, no matter what time during the day an investor in a traditional mutual fund places an order to purchase or redeem shares, that investor's order will be priced at that fund's NAV determined as of the close of trading of the NYSE. Traditional mutual fund shares may be purchased from the fund directly by the shareholder or through a financial intermediary.

In contrast, HealthShares™ cannot be purchased from, or redeemed by, the issuing Fund except through a Participating Organization (a firm that is either a member of the Continuous Net

Settlement System of the National Securities Clearing Corporation (NSCC) or a Depository Trust Company (DTC) participant that has executed a Participant Agreement with the Funds' distributor, ALPS Distributors, Inc.) and then only for an in-kind basket of securities. An organized secondary market is expected to exist for HealthShares™, unlike traditional mutual fund shares, because HealthShares™ are listed for trading on the NYSE. As a result, investors can purchase and sell HealthShares™ on the secondary market through a broker. Secondary-market transactions do not take place at NAV but at market prices that change throughout the day, based on the supply of, and demand for, HealthShares™. Although the market price of HealthShares™ typically approximates its NAV, there may be times when the market price and the NAV differ, so you may receive more or less than NAV when you sell your HealthShares™ on the secondary market. Also, it is possible that an active trading market may not be maintained.

These arrangements relating to the purchase and sale of HealthShares™ are designed to protect shareholders of the Funds from the potentially adverse effects that may be caused by the need to make frequent purchases and sales of portfolio securities as a result of cash inflows and outflows, as experienced in a traditional mutual fund. For example, in a traditional mutual fund, redemptions can result in adverse tax consequences on non-redeeming taxable shareholders because the mutual fund must sell portfolio securities to raise cash to pay redemptions. These sales may generate taxable capital gains which are then distributed to all shareholders, including non-redeeming shareholders. In contrast, the in-kind redemption mechanism of the Funds will enable the Funds to meet redemption requests without the need to sell portfolio securities and, as a result, redemptions from the Funds will generally not have any tax impact on the non-redeeming shareholders.

EXCEPT WHEN AGGREGATED IN CREATION UNITS, HEALTHSHARES™ ARE NOT REDEEMABLE SECURITIES OF THE FUNDS.

BUYING AND SELLING HEALTHSHARES™

How do I buy and sell HealthShares™?

Each Fund issues or redeems shares only in lots of 100,000 shares (except for the HealthShares™ Asian Health Exchange-Traded Fund, which issues or redeems shares only in lots of 200,000 shares). These lots are known as Creation Units. To purchase or redeem a Creation Unit, you must be a Participating Organization or you must do so through a broker that is a Participating Organization. The Distributor will provide a list of Participating Organizations upon request. Because Creation Units can be purchased or redeemed only in exchange for a basket of securities likely to cost millions of dollars, it is expected that only a limited number of institutional investors will purchase and redeem shares directly with the Funds.

Most investors will purchase or sell HealthShares™ on the secondary market through a broker. To acquire HealthShares™, you must have a brokerage account. If you want to sell HealthShares™, you must do so through your broker. When buying or selling shares through a broker, you will incur customary brokerage commissions and charges. The price at which you buy or sell the Funds' shares (*i.e.*, the market price) may be more or less than the NAV of the shares. Unless imposed by your broker, there is no minimum dollar amount you must invest and

no minimum number of the Funds' shares you must buy. Shareholders will also incur typically brokerage and transaction costs when buying or selling HealthShares™ on the secondary market.

The Funds' shares are listed on the NYSE, which is generally open Monday through Friday and is closed for weekends and the following holidays: New Year's Day, Martin Luther King, Jr. Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day.

Section 12(d)(1) of the 1940 Act restricts investments by registered investment companies in securities of other registered investment companies, including the Funds. The acquisition of Fund shares by registered investment companies is subject to the restrictions of Section 12(d)(1) of the 1940 Act, except as may at some future time be permitted by an exemptive order that permits registered investment companies to invest in a Fund beyond the limits of Section 12(d)(1), subject to certain terms and conditions, including that the registered investment company enter into an agreement with the Fund regarding the terms of the investment

What fees and expenses will I incur when buying, owning and selling the Funds' shares?

When you buy or sell the Funds' shares in the secondary market through a brokerage firm, you will pay commissions in an amount that will vary depending on the brokerage firm. You will also incur the cost of the "bid-asked spread," which is the difference between the price a dealer will pay for a security and the somewhat higher price at which the dealer will sell the same security. Once you own HealthShares™, you will be subject your pro rata portion of the Fund's operating fees and expenses as described above and as set forth in further detail in the Funds' prospectus. The purchase and sale of HealthShares™ in Creation Unit blocs by or through Participating Organizations are subject to certain transaction charges that are described in the prospectus.

How often will I receive distributions of dividends and capital gains? Can I reinvest these distributions?

The Funds pay out dividends from their net investment income to investors annually and distribute any net capital gains annually. Some brokerage firms are able to reinvest dividend and capital gains distributions in additional shares of the Funds, while others do not. Please ask your firm whether it offers a reinvestment service and, if so, whether there is a charge for the service. If your brokerage firm does not offer a reinvestment service, you will receive all dividends and capital gains distributions in cash.

Who manages HealthShares™?

XShares Advisors LLC (the "Advisor") serves as investment adviser to the Funds with overall responsibility for the general management and administration of the Funds, subject to the supervision of the HealthShares™'s Board of Directors (the "Directors"). The Advisor is a newly formed entity with no prior experience managing ETFs. Its address is 420 Lexington Avenue, New York, New York 10170.

The Advisor has engaged BNY Investment Advisors (the “Sub-Advisor”), a separate identifiable division of The Bank of New York, a New York State banking corporation having its principal office and place of business at 1633 Broadway, 13th Floor, New York, New York 10019, as investment sub-advisor to the Funds. The Sub-Advisor will be responsible for the day-to-day management of the Funds, subject to the supervision of the Advisor and the Directors. The Sub-Advisor has substantial prior experience in acting as sub-advisor to ETFs. The Sub-Advisor will generally employ only the replication method in adjusting the Funds’ portfolio in response to changes in the Underlying Index. To the extent that it is necessary to employ a sampling strategy with respect to a Fund’s portfolio, the Advisor, and not the Sub-Advisor, will generally be responsible for determining which securities to invest in as part of that strategy.

The Funds are not actively managed and the actions of Advisor and the Sub-Advisor will not result in the active management of the Funds. The service marks of each Underlying Index are the service marks of the Advisor. The Advisor has licensed the use of these service marks to the Company in connection with its use by the Funds

As an owner of HealthShares™, do I receive services from the Advisor?

Because you hold HealthShares™ through a brokerage account, HealthShares™, Inc. will have no record of your ownership. Your brokerage firm will service your account. For example, your broker will be responsible for providing you with account statements, confirmations of your purchases and sales of HealthShares™, and year-end tax information. It also will be responsible for ensuring that you receive shareholder reports and other communications from the particular Fund whose shares you own. You will receive certain services (*e.g.*, dividend reinvestment and average-cost information) only if your brokerage firm offers those services.

What happens if the Shares are delisted or the Funds’ arrangements with the Index Administrator are terminated?

If the Funds’ shares are delisted from the NYSE, the Directors will consider what appropriate action to take, which may include, among other things, seeking to list the shares on another national securities exchange, converting the Fund to a traditional mutual fund, or redeeming the Shares at NAV. If the Funds’ arrangements with the Index Administrator are terminated, the Directors will seek to engage a replacement index administrator meeting applicable legal requirements. Should it prove impractical to engage another index administrator, the Directors will take whatever action is deemed to be in the best interests of the Funds’ shareholders.

Where can I find price information about HealthShares™, Inc?

The Funds’ website will contain the following information, on a per share basis, for each Fund: (a) the prior business day’s net asset value and the Bid/Ask Price and a calculation of the premium or discount of the Bid/Ask Price at the time of calculation of the net asset value against such net asset value; and (b) data in chart format displaying the frequency distribution of discounts and premiums of the daily Bid/Ask Price against the net asset value, within appropriate ranges, for each of the four previous calendar quarters. In addition, the Funds’ website contains information regarding the premiums and discounts at which shares of the Funds have traded.

The approximate value of shares of each Fund is disseminated every fifteen seconds throughout the trading day by the NYSE or by other information providers, such as Reuters. This approximate value should not be viewed as a “real-time” update of the NAV, because the approximate value may not be calculated in the same manner as the NAV, which is computed once a day. The approximate value generally is determined by using both current market quotations and/or price quotations obtained from broker-dealers that may trade in the portfolio securities held by the Funds. The Funds are not involved in, or responsible for, the calculation or dissemination of the approximate value and make no warranty as to its accuracy.

How are the Underlying Indexes created and how can I learn more about them?

For each Underlying Index, the Index Administrator will employ the Index Methodology to identify the companies for inclusion in the Index. The Index Methodology is publicly available on the Funds’ website at www.healthsharesinc.com. Any change to the Index Methodology will be posted on the Funds’ website at least 60 days prior to its being implemented. Information about each Underlying Index, including the component securities in each Underlying Index and value of the securities in each Underlying Index are posted throughout the trading day every 15 seconds and are available through Reuters under the following symbols:

HealthShares™ Asian Healthcare Index	HSASIH
HealthShares™ Autoimmune Inflammation Index	HSAUTO
HealthShares™ Cancer Index	HSTOPC
HealthShares™ Cardio Devices Index	HSCRDV
HealthShares™ Cardiology Index	HSCARD
HealthShares™ Dermatology and Wound Care Index	HSDEWC
HealthShares™ Diagnostics Index	HSDIAG
HealthShares™ Emerging Cancer Index	HSMIDC
HealthShares™ Enabling Technologies Index	HSENAT
HealthShares™ European Drugs Index	HSEURD
HealthShares™ European Medical Products and Devices Index	HSEUMP
HealthShares™ GI/Gender Health Index	HSURGH
HealthShares™ Infectious Disease Index	HSINFD
HealthShares™ Metabolic-Endocrine Index	HSMETE
HealthShares™ Neuroscience Index	HSNEUR
HealthShares™ Ophthalmology Index	HSOPTH
HealthShares™ Orthopedic Repair Index	HSORTR
HealthShares™ Patient Care Services Index	HSPACS
HealthShares™ Respiratory Pulmonary Index	HSRESP
HealthShares™ Composite Index	HSCOMP

LEGAL INFORMATION FOR BROKER-DEALERS

Because new Fund shares may be issued on an ongoing basis, a “distribution” of Fund shares could be occurring at any time. Certain activities that you perform as a dealer could, depending on the circumstances, result in you being deemed a participant in the distribution, in a manner that could render you a statutory underwriter and subject you to the prospectus delivery and liability provisions of the Securities Act of 1933 (the “Securities Act”). For example, you could be deemed a statutory underwriter if you purchase Creation Units from the issuing Fund, break them down into the constituent Fund shares, and sell those shares directly to customers, or if you choose to couple the creation of a supply of new Fund shares with an active selling effort involving solicitation of secondary-market demand for Fund shares. Whether a person is an underwriter depends upon all of the facts and circumstances pertaining to that person’s activities, and the examples mentioned here should not be considered a complete description of all the activities that could cause you to be deemed an underwriter.

Dealers who are not “underwriters” but are participating in a distribution (as opposed to engaging in ordinary secondary-market transactions), and thus dealing with Fund shares as part of an “unsold allotment” within the meaning of Section 4(3)(C) of the Securities Act, will be unable to take advantage of the prospectus delivery exemption provided by Section 4(3) of the Securities Act.

ADDITIONAL INFORMATION

This Product Description is required to be provided to purchasers of HealthShares™ by NYSE member and member organizations pursuant to NYSE rules.

An investor should consider the Fund’s investment objectives, strategies risks and expenses before investing. For a HealthShares™, Inc. prospectus, containing more complete information about the Funds, or a Statement of Additional Information, call 800-925-2870 or visit the Funds’ website at www.healthsharesinc.com. Please read the prospectus carefully before you invest or send money.

There are risks involved with investing in ETFs including possible loss of money. HealthShares™ are not actively managed and are subject to risks similar to stocks, including those related to short selling and margin maintenance. HealthShares™ ETFs are subject to increased risks associated with investing in a specific sector compared to more a diversified investment.

The prospectus is not an offer to buy or sell the portfolio shares, nor is the fund soliciting an offer to buy its shares in any jurisdiction where the offer or sale is not permitted.