



Issuer: Hang Seng Investment Management Limited

- ***This statement provides you with key information about the Hang Seng Index Tracking Fund (the “Fund”).***
- ***This statement is a part of the offering document and must be read in conjunction with the Explanatory Memorandum for Hang Seng Investment Index Funds Series II (the “Explanatory Memorandum”) and the Term Sheet of the Fund (the “Term Sheet”).***
- ***You should not invest in the Fund based on this statement alone.***

Quick Facts

Manager:	Hang Seng Investment Management Limited
Trustee:	Cititrust Limited [#]
Registrar:	HSBC Institutional Trust Services (Asia) Limited
Underlying Index:	Hang Seng Index
Base Currency:	Hong Kong dollars (HKD)
Dealing Frequency:	Each Dealing Day
Financial Year End of the Fund:	31 December
Dividend Policy:	<p>Quarterly cash dividends (if any) at the discretion of the Manager, which are expected to be in respect of each calendar quarter of each calendar year respectively. The Manager currently intends to make declaration of dividend in March, June, September and December of each year. Each Unitholder will receive dividends in HKD only. There is no guarantee of regular distribution of dividends and if dividend is paid the amount being distributed.</p> <p>The Manager may, at its discretion, pay dividend out of capital. The Manager may also, at its discretion, pay dividend out of gross income while all or part of the fees and expenses of the Fund are charged to/paid out of the capital of the Fund, resulting in an increase in distributable income for the payment of dividends by the Fund and therefore, the Fund may effectively pay dividend out of capital. Payment of dividends out of capital or effectively out of capital amounts to a return or withdrawal of part of an investor's original investment or from any capital gains attributable to that original investment. Any distributions 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.</p>
Minimum Subscription Amount:	As determined by the Authorised Distributor(s) of the Fund
Ongoing Charges Over a Year*:	0.08%
Tracking Difference of 2021**:	-0.04%

[#] Currently, the Trustee has appointed The Hongkong and Shanghai Banking Corporation Limited to be the custodian.

* With effect from 13 September 2022, the management fee of the Fund has been revised. The ongoing charges figure is an estimate based on the revised management fee of the Fund and ongoing expenses (excluding the management fee) for the year ended 31 December 2021, expressed as a percentage of the Fund's average Net Asset Value for the same period. It includes the fees of the Manager and the Trustee. This figure may vary from year to year and the actual figure may be different. Please refer to the “CHARGES AND EXPENSES” section in the Explanatory Memorandum and the Term Sheet of the Fund respectively for details.

**** This is the actual tracking difference of the calendar year 2021. Investors should refer to the Fund's website for more up-to-date information on actual tracking difference.**

What is the Fund?

The Fund is a sub-fund of the Hang Seng Investment Index Funds Series II, a unit trust established as an umbrella fund under the laws of Hong Kong. The Fund is an index-tracking fund falling under Chapter 8.6 of the Code on Unit Trusts and Mutual Funds (the "Code").

Objective and Investment Strategy

Objective

The Fund is an index-tracking fund which aims to match, before fees and expenses, as closely as practicable the total return performance (net of withholding tax) of the Hang Seng Index (the "Index").

Investment Strategy

The Manager primarily adopts a replication strategy. The Fund invests in substantially all the constituent stocks of the Index in substantially the same weightings (i.e. proportions) as these stocks have in the Index.

In order to maximise portfolio management efficiency, minimise transaction costs and tracking error, exposure to the Index may also be obtained through other index-tracking strategies or financial derivative instruments (such as futures contracts) from which the return to the Fund 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 Fund's investment objective.

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

In addition, the Manager may invest up to 10% of the Net Asset Value of the Fund in the units or shares in index tracking exchange traded fund(s) ("ETF(s)") which are authorised by the SFC under Chapter 8.6 of the Code and listed and regularly traded on the SEHK. The investment objective, policy and underlying investments of the ETF(s) invested by the Fund shall be in line with that of the Fund. The investments in the ETF(s) will be considered and treated as listed securities for the purposes of and subject to the requirements in Chapter 7.1, 7.1A and 7.2 of the Code.

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 Fund. In the future, the Manager may have securities lending, repurchase or similar over-the-counter transactions entered into for the account of the Fund, subject to the prior approval of the Securities and Futures Commission ("SFC") (where applicable) and 1 month's prior notice be given to the relevant Unitholders.

Index

The Index, launched on 24 November 1969, serves as a benchmark to reflect the overall performance of the Hong Kong stock market. The Index is denominated in HKD and is calculated with a base value of 100 as of 31 July 1964. It is calculated and disseminated real-time at 2-second intervals during trading hours of The Stock Exchange of Hong Kong Limited ("SEHK").

The Index is compiled and managed by Hang Seng Indexes Company Limited ("HSIL" or "Index Provider"), a wholly-owned subsidiary of Hang Seng Bank Limited. The functions which the Index Provider and the Manager will perform in connection with the Fund may give rise to potential conflicts of interest but the Manager will manage any such conflicts in the best interest of investors. Please refer to the Explanatory Memorandum and the Term Sheet of the Fund for further details.

There are four sub-indexes: Finance, Utilities, Properties, and Commerce and Industry.

The universe of securities of the Index includes the constituents of the Hang Seng Composite LargeCap & MidCap Index as of index review data cut-off date. Foreign companies, stapled securities and biotech companies with stock names ended with market “B” are excluded.

To be eligible for inclusion in the Index, a security in the universe must fulfil the eligibility criteria of the Index which include the market value requirement, turnover requirement, listing history requirement and geographical requirement. Eligible securities will be assigned to one of the seven industry groups according to their industry classification of the Hang Seng Industry Classification System. The combination of the industry groups will be reviewed at least every two years. The number of constituents in each industry group will be decided by the below principles:

- Target to cover at least 50%, in terms of market capitalisation, for each industry group;
- Characteristics of the industry group which include the distribution of the listed companies in terms of their size and number; and
- The industry group weighting in the Index compared to the market.

The Index will also maintain 20 to 25 constituents that are classified as “Hong Kong” Companies and this number will be reviewed at least every two years.

In general, eligible securities will be evaluated within each industry group according to the following considerations:

- Representativeness;
- Market capitalisation;
- Turnover; and
- Financial performance.

The final constituent selection will be decided by the HSI Advisory Committee after taking the above into consideration.

The number of constituents is targeted to reach 80 by mid-2022 and ultimately fixed at 100. The constituents of the Index are reviewed quarterly.

The Index is a total return index and adopts a freefloat-adjusted market capitalisation weighted methodology with a 8% cap on individual securities.

As at 5 September 2022, the Index comprised 73 constituents listed on SEHK with free float-adjusted market capitalisation of HKD 12,703.6 billion.

The constituent stocks of the Index together with their respective weightings, the Index methodology and other important news relating to the Index are available at the Index Provider’s website at www.hsi.com.hk[▲].

Use of derivatives / Investment in derivatives

The Fund’s net derivative exposure may be up to 50% of its Net Asset Value.

What are the key risks?

Investment involves risks. Please refer to the “RISK FACTORS” section in the Explanatory Memorandum and the Term Sheet for details.

1. Investment Risk

- ❖ The Fund is an investment fund and its investment portfolio may fall in value due to any of the key risk factors below and therefore your investment in the Fund may suffer losses. There is no guarantee of the repayment of principal.

2. Equity Market Risk

- ❖ The Fund's investments in equity securities is 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.

3. Tracking Error Risk

- ❖ The Fund may be subject to tracking error risk, which is the risk that its performance may not track that of the Index exactly. This tracking error may result from factors such as the investment strategy used, fees and expenses. The Manager will monitor and seek to manage such risk in minimising tracking error.
- ❖ There can be no assurance of exact or identical replication at any time of the performance of the Index.

4. Passive Investment Risk

- ❖ The Fund is passively managed and the Manager will not have the discretion to adapt to market changes due to the inherent investment nature of the Fund. Falls in the Index are expected to result in corresponding falls in the value of the Fund.

5. Concentration and Mainland Market Risks

- ❖ The Fund's investments are concentrated in Hong Kong listed securities (including H-shares, red chips shares and P chips shares) of specific industry sectors. The value of the Fund may be more volatile than that of a fund having a more diverse portfolio of investments. The value of the Fund may be more susceptible to adverse economic, political, policy, foreign exchange, liquidity, tax, legal or regulatory event affecting the Hong Kong market.
- ❖ By investing in H-shares, red chips shares and P chips shares, the Fund is subject to the risks of investing in an emerging market, which include increased risks and special considerations not typically associated with investment in more developed markets, such as liquidity risks, currency risks/control, political and economic uncertainties, legal and taxation risks, settlement risks, custody risk and the likelihood of a high degree of volatility.

6. Risk associated with investments in companies with weighted voting rights

- ❖ The Fund may invest in, or the constituent stocks of the Index may include, companies (such as innovative companies) which have a weighted voting rights structure. This leads to issues relating to shareholder rights and corporate governance as well as investor protection, which may have a negative impact on the Fund where the Fund invests in the ordinary shares of such companies.

7. Distribution Out of Capital or Effectively Out of Capital Risk

- ❖ 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 such distributions may result in an immediate reduction of the Net Asset Value per Unit.

8. PRC Tax Risk

- ❖ There are risks and uncertainties associated with the current PRC tax (including PRC Corporate Income Tax and PRC Value-Added Tax) laws, regulations and practice in respect of income (such as dividend income) derived in the PRC from the Fund's investments in H-shares, certain red chips shares and certain P chips shares (which may have retrospective effect). Any increased tax liabilities on the Fund may adversely affect the Fund's value. The Fund may also be subject to other taxes imposed in the PRC, which may reduce the income from, and/or the value of, the relevant investments in the Fund.
- ❖ The Manager currently does not make withholding income tax provision for gross realised or unrealised capital gains derived from trading of H-shares, certain red chips shares and certain P chips shares. If taxes are levied in future on the Fund for which no provision is made, the Fund's Net Asset Value will be adversely affected. In this case, the then existing and subsequent investors will be disadvantaged.

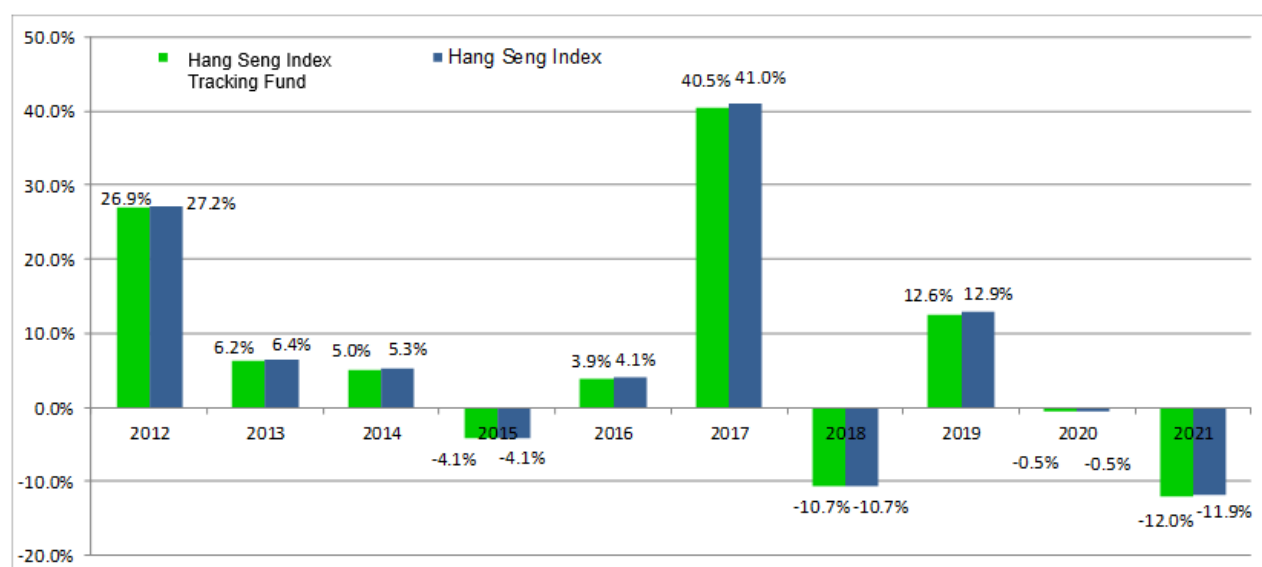
9. Reliance on the Same Group Risk

- ❖ The Index Provider is presently HSIL, which calculates and reports the daily closing level of the Index (or designates parties to do so). Both the Manager and the Index Provider are presently subsidiaries of Hang Seng Bank Limited. The functions which the Index Provider and the Manager will perform in connection with the Fund may give rise to potential conflicts of interest. Please refer to the Explanatory Memorandum and the Term Sheet for further details.
- ❖ Apart from the above, each of the Registrar, the Administrator, the Custodian, the Manager and the Index Provider are members of the HSBC Group (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 Fund. In such event the Net Asset Value of the Fund 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. As such, although all transactions will be at arm’s length, conflicts of interest in respect of the Fund 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 Fund and Unitholders and will endeavour to ensure such conflicts are resolved fairly.

10. Termination Risk

- ❖ The Fund may be terminated early under certain circumstances, for example, where the Index is no longer available for benchmarking or if the size of the Fund falls below HKD4,000,000. Investors may not be able to recover their investments and suffer a loss when the Fund is terminated.

How has the Fund performed?



- ❖ Past performance information is not indicative of future performance. Investors may not get back the full amount invested.
- ❖ The computation basis of the total return performance is based on the calendar year end, Net Asset Value-To-Net Asset Value, with dividend (if any) reinvested.
- ❖ These figures show by how much the Fund increased or decreased in value during the calendar year being shown. Performance data has been calculated in HKD including ongoing charges and excluding subscription fee and switching fee you might have to pay.
- ❖ The Benchmark of the Fund is Hang Seng Index (total return with dividend reinvested, net of PRC

withholding tax).

- ❖ Fund launch date: 2004.

Is there any guarantee?

The Fund does not have any guarantees. You may not get back the amount of money you invest.

What are the fees and charges?

Charges which may be payable by you

You may have to pay the following fees when dealing in the Units of the Fund.

Fee	What you pay [#]
Preliminary Charge	Up to 2.5% of the issue price of the Fund
Redemption Charge	Nil

[#] These fees may be increased up to the permitted maximum level as disclosed in the Explanatory Memorandum, on one month's notice to Unitholders (or such shorter period as approved by the SFC). Please refer to the Explanatory Memorandum and Term Sheet of the Fund for details.

Ongoing fees payable by the Fund

The following expenses will be paid out of the Fund. They affect you because they reduce the return you get on your investments.

Fee	Annual rate (as a % of the Net Asset Value of the Fund)
Management Fee [^]	(a) 0.045% per annum (on the first HKD15 billion of the Net Asset Value of the Fund) (b) 0.030% per annum (on the next HKD15 billion of the Net Asset Value of the Fund) (c) 0.020% per annum (on the next HKD15 billion of the Net Asset Value of the Fund) (d) 0.015% per annum (on the remaining balance of the Net Asset Value of the Fund)
Trustee Fee ^{^^}	0.03% per annum
Performance Fee	Nil
Administration Fee	Nil

[^] Please note that the annual rate stated is the rate charged currently as specified in the Explanatory Memorandum and the Term Sheet. It may be increased up to a permitted maximum rate as set out in Explanatory Memorandum by giving 3 months' prior notice to relevant Unitholders.

^{^^} Please note that the annual rate stated is the rate charged currently as specified in the Explanatory Memorandum and the Term Sheet. It may be increased up to a permitted maximum rate as set out in Explanatory Memorandum by giving 1 month's prior notice to relevant Unitholders.

Other fees

You may have to pay other fees when dealing in the Units of the Fund. Please refer to the "CHARGES AND EXPENSES" section in the Explanatory Memorandum for details.

Additional Information

- ❖ You generally buy and redeem Units at the Fund's next-determined Net Asset Value.

- ❖ To be dealt with on a Dealing Day (as defined in the Explanatory Memorandum), your request has to be received by the Authorised Distributor(s) of the Fund in good order on or before the dealing cut-off time as set by them (which may be different from that as set by the Manager). Please contact the Authorised Distributor(s) of the Fund for details.
- ❖ The Net Asset Value of the Fund in respect of each Dealing Day is calculated on each Dealing Day, and is available online at www.hangsenginvestment.com[▲].
- ❖ 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 are available from the Manager on request and on the website www.hangsenginvestment.com[▲].
- ❖ Investors may obtain other information of the Fund at the website at www.hangsenginvestment.com[▲].

Important

If you are in doubt, you should seek professional advice.

The SFC takes no responsibility for the contents of this statement and makes no representation as to its accuracy or completeness.

[▲] This website has not been reviewed by the SFC.

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