



Issuer: Hang Seng Investment Management Limited

- ***This statement provides you with key information about Hang Seng Mainland China Bond 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 Series (the “Explanatory Memorandum”) and the Term Sheet of the Fund.***
- ***You should not invest in the Fund based on this statement alone.***

### Quick Facts

Manager:	Hang Seng Investment Management Limited	
Trustee & Registrar:	HSBC Institutional Trust Services (Asia) Limited	
Base Currency:	HKD	
Dealing Frequency:	Daily*	
Dividend Policy:	Income Units	The Manager currently intends to make declaration of distribution on a monthly basis. The distribution will be made in the form of cash payment. The Manager may at its discretion pay dividend out of the capital of the Fund.  Payment of dividends 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.
	Accumulation Units	No distribution, any income received by the Fund will be accumulated and reflected in the Unit price.
Minimum Subscription Amount (lump sum):	As determined by the Authorised Distributor(s) of the Fund	
Ongoing charges over a year**	Class A - Income Units	1.33%
	Class A - Accumulation Units	1.33%
Financial year end of the Fund:	31 December	

\* Generally, Dealing Day is any day which is both (i) a day (except Saturday) on which banks in Hong Kong are open for normal banking business, and (ii) a full trading day on both the Shanghai Stock Exchange and the Shenzhen Stock Exchange. Please refer to the Explanatory Memorandum for the full definition of “Dealing Day”.

\*\* The ongoing charges figures are based on ongoing expenses for the year ended 31 December 2021 expressed as a percentage of the Fund's average Net Asset Value for the same period. They include the fees of the Manager and the Trustee. Please refer to the “CHARGES AND EXPENSES” section in the Explanatory Memorandum and the Term Sheet of the Fund respectively for details. This figure may vary from year to year. The ongoing charges figure (if any) for Class I Units is available from the Manager on request.

### What is the Fund?

- ❖ The Fund is a fund in the Hang Seng Investment Series, which is a unit trust established as an umbrella fund and is currently domiciled in The Hong Kong Special Administrative Region (“Hong Kong”).

## **Objective and Investment Strategy**

### **Objective**

The investment objective of the Fund is to maximize total returns while maintaining steady current income through investing primarily in debt securities ("Debt Securities") that are issued by the entities mentioned below.

### **Investment Strategy**

The Fund invests at least 70% of the Fund's Net Asset Value in Debt Securities including bonds, notes, certificates of deposits and convertible bonds that are issued by: 1) any body or entity in the PRC ("PRC Entity"), or 2) any company with either a significant portion of its business activities conducted in the PRC or a substantial portion of its shareholdings held directly or indirectly by one or more PRC Entities.

Convertible bonds can be converted into shares of the issuer(s), subject to the terms of the issue. Where convertible bonds in which the Fund invests are converted into shares of the issuer(s), the Fund may hold such shares for up to 1 month.

The Fund may invest less than 30% of its Net Asset Value in debt instruments with loss-absorption features (e.g. debt instruments, non-preferred senior debt instruments and other senior or subordinated debt instruments issued by a holding company of a financial institution with features of contingent write-down on the occurrence of (i) when a financial institution is near or at the point of non-viability, or (ii) when the capital ratio of a financial institution falls to a specified level).

The Fund may invest in aggregate, less than 30% of its Net Asset Value in the following types of Debt Securities:

- (i) Debt Securities that have a credit rating below Investment Grade (which is defined in respect of mainland Chinese securities as a credit rating of BB+ or below as rated by any PRC domestic credit rating agencies (currently, such PRC credit rating agencies include Shanghai Brilliance Credit Rating & Investors Service Company Limited, China Lianhe Credit Rating Company Limited, China Chengxin International Credit Rating Company Limited and Dagong Global Credit Rating Company Limited));
- (ii) Debt Securities that have a credit rating below Investment Grade ("Investment Grade" is defined as a credit rating of Baa3 or higher as rated by Moody's, BBB- or higher as rated by Standard & Poor's, BBB- or higher as rated by Fitch or an equivalent rating as rated by other recognized rating agencies); and/or
- (iii) Debt Securities that are unrated securities (In determining whether a debt security is "unrated", the Manager will consider the credit rating of the debt security itself; if the debt security is not rated, then the Manager will consider the credit rating of the issuer. If neither the debt security itself nor its issuer is rated, the debt security will be classified as "unrated". For the avoidance of doubt, for debt securities which are rated and/or the issuer of which are rated by multiple internationally recognized credit rating agencies, if the credit ratings of the debt securities amongst credit rating agencies differ, the highest available rating assigned by an internationally recognized credit rating agency will be used for the purpose of determining the credit rating.).

While the credit ratings provided by the relevant rating agencies serve as a point of reference, the Manager will conduct its own assessment on the credit quality based on various factors.

The Fund may also invest less than 30% of its Net Asset Value in Debt Securities which are denominated in currencies other than Renminbi and/or issued or listed outside the PRC.

Currently, the Fund may not invest in asset backed securities (including asset backed commercial papers or similar structured products) or in urban investment bonds (城投債) (i.e. debt instruments issued by local government financing vehicles and traded in the listed bond market and interbank bond market in the PRC). In the future, where the Manager intends to engage in any such transactions, the Manager will obtain the SFC's prior approval and provide not less than one month's prior notice to relevant Unitholders.

The Fund seeks to achieve this investment objective by primarily investing in Debt Securities issued in mainland China through a Qualified Foreign Institutional Investor (“QFII”) and/or Bond Connect. Currently, Hang Seng Bank Limited is the QFII selected and its QFII custodian is China Construction Bank Corporation.

### **Use of derivatives / investment in derivatives**

The Fund will not use financial derivative instruments for any purposes.

### **What are the key risks?**

**Investment involves risks. Please refer to the “Risk Factors” section in the Explanatory Memorandum and the Term Sheet of the Fund respectively for details.**

#### **Investment Risk**

- ❖ The Fund’s 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.

#### **Currency and exchange rate control Risk**

- ❖ Where the underlying investments of the Fund are denominated in currencies other than the base currency of the Fund, the Net Asset Value of the Fund may be affected unfavourably by fluctuations in the exchange rates between these currencies and the Fund’s base currency and by changes in exchange rate controls.

#### **Risks associated with Investment made through a QFII**

- ❖ The Fund’s ability to make the relevant investments or to fully implement or pursue its investment objective and strategy is subject to the applicable laws, rules and regulations (including requirements and restrictions on investments and repatriation of principal and profits) in the PRC, which are subject to change and such change may have potential retrospective effect.
- ❖ The Fund may suffer substantial losses if there is insufficient QFII quota allocated for the Fund to make investments, the approval of the QFII is being revoked/terminated or otherwise invalidated as the Fund may be prohibited from trading of relevant securities and repatriation of the Fund’s monies, or if any of the key operators or parties (including QFII custodian/brokers) is bankrupt/in default and/or is disqualified from performing its obligations (including execution or settlement of any transaction or transfer of monies or securities).

#### **Risks associated with Bond Connect**

- ❖ Investing in the China Interbank Bond Market (“CIBM”) via Bond Connect is subject to regulatory risks and various risks such as volatility risk, liquidity risk, settlement and counterparty risk as well as other risk factors typically applicable to debt securities. The relevant rules and regulations on investment in the CIBM via Bond Connect are subject to change which may have potential retrospective effect. In the event that the relevant mainland Chinese authorities suspend account operation or trading on the CIBM, the Fund’s ability to invest in the CIBM will be adversely affected. In such event, the Fund’s ability to achieve its investment objective will be negatively affected.
- ❖ In addition, trading through Bond Connect is performed through newly developed trading platforms and operational systems. In the event that the relevant systems fail to function properly, trading through Bond Connect may be disrupted. The Fund’s ability to trade through Bond Connect (and hence to pursue its investment strategy) may therefore be adversely affected.

#### **Concentration Risk**

- ❖ The Fund’s investments are concentrated in Debt Securities issued by companies which engage in mainland China-related businesses. 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 mainland China.

### **Risks for Funds investing in Fixed Income Instruments**

In respect of the investments of the Fund in fixed income instruments, the key risks include the following:-

#### **Credit / Counterparty Risk**

- ❖ The Fund is exposed to the credit/default risk of issuers of the fixed income instruments that the Fund may invest in.

#### **Interest Rate Risk**

- ❖ Investment in the Fund is subject to interest rate risk. In general, the prices of fixed income instruments rise when interest rates fall, whilst their prices fall when interest rates rise.

#### **Volatility and Liquidity Risk**

- ❖ The fixed income instruments in emerging markets may be subject to higher volatility and lower liquidity compared to more developed markets. The prices of securities traded in such markets may be subject to fluctuations. The bid and offer spreads of the price of such securities may be large and the Fund may incur significant trading costs.

#### **Downgrading Risk**

- ❖ The credit rating of a fixed income instrument or its issuer may subsequently be downgraded. In the event of such downgrading, the value of the Fund may be adversely affected. The Manager may or may not be able to dispose of the fixed income instruments that are being downgraded.

#### **Sovereign Debt Risk**

- ❖ The Fund's investment in securities issued or guaranteed by governments may be exposed to political, social and economic risks. In adverse situations, the sovereign issuers may not be able or willing to repay the principal and/or interest when due or may request the Fund to participate in restructuring such debts. The Fund may suffer significant losses when there is a default of sovereign debt issuers.

#### **Valuation Risk**

- ❖ Valuation of the Fund's investments may involve uncertainties and judgmental determinations. If such valuation turns out to be incorrect, this may affect the Net Asset Value calculation of the Fund.

#### **Credit Rating Risk**

- ❖ Credit ratings assigned by rating agencies are subject to limitations and do not guarantee the creditworthiness of the security and/or issuer at all times.
- ❖ The credit appraisal system in the mainland China and the rating methodologies employed in the mainland China may be different from those employed in other markets. Credit ratings given by mainland China rating agencies may therefore not be directly comparable with those given by other international rating agencies.

### **Risks associated with Investing in Debt Instruments of Emerging Markets**

- ❖ The above risks for investing in fixed income instruments may be especially pronounced for fixed income instruments of emerging markets. Investment in emerging markets may involve increased risks and special considerations not typically associated with investment in more developed markets. Other risks include, without limitation, currency fluctuations/control, legal and taxation risks, settlement risks, custody risk, the risks of investing in countries with smaller capital markets (such as limited liquidity, price volatility and restrictions on foreign investments), and additional risks associated with emerging economies (including high inflation and interest rates, substantial external debt and political and social uncertainties).

### **Risks associated with investing in Convertible Bonds**

- ❖ Convertible bonds are a hybrid between debt and equity, permitting holders to convert into shares in the company issuing the bond at a specified future date. As such, convertibles will be exposed to equity movement and greater volatility than straight bond investments. Investments in convertible bonds are subject to the same interest rate risk, credit risk, liquidity risk and prepayment risk associated with

comparable straight bond investments.

### **RMB Currency and Conversion Risks**

- ❖ RMB is currently not freely convertible and is subject to exchange controls and restrictions. Non-RMB based investors are exposed to foreign exchange risk and there is no guarantee that the value of RMB against the investors' base currencies (for example HKD) will not depreciate. Any depreciation of RMB could adversely affect the value of investor's investment in the Fund. Although offshore RMB (CNH) and onshore RMB (CNY) are the same currency, they trade at different rates. Any divergence between CNH and CNY may adversely impact investors.

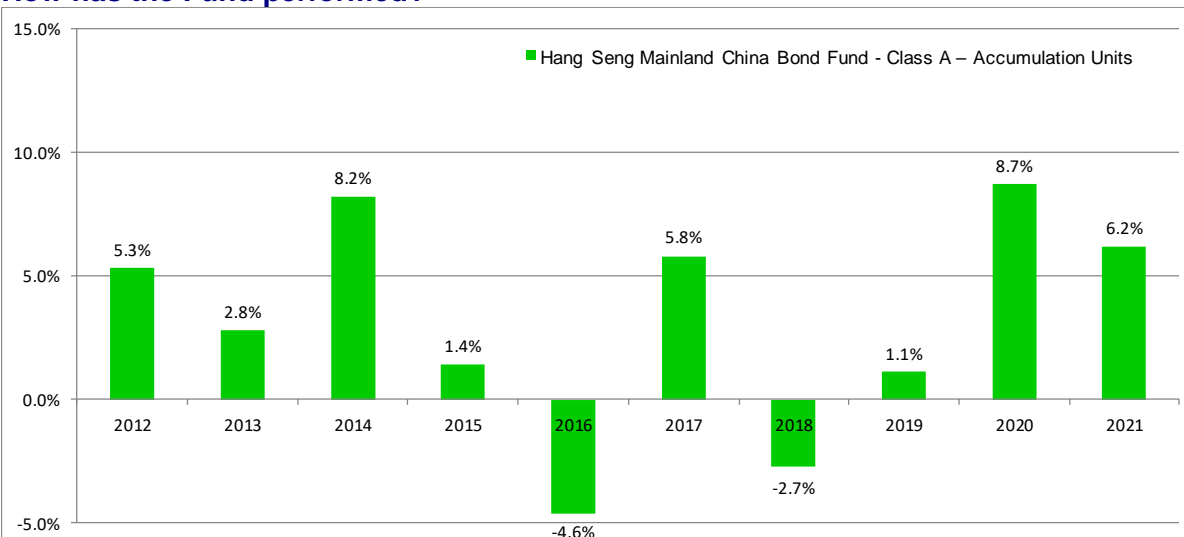
### **PRC Tax Risk**

- ❖ The Fund may be subject to PRC Corporate Income Tax ("CIT") and/or other PRC taxes on any capital gain and interest it receives from its investments in PRC debt securities. The Manager reserves the right to make relevant provision on such incomes (if any) if so warranted.
- ❖ Currently, (i) the bond interest income received by foreign institutional investors from the investments in the China bonds market during the period from 7 November 2018 to 31 December 2025 is temporarily exempt from PRC Value-Added Tax ("VAT") and CIT, (ii) CIT is temporarily exempt for capital gains of overseas institutions on bond investments through the CIBM, and (iii) gains derived by foreign institutional investors approved by the People's Bank of China from trading of RMB denominated debt securities in the CIBM are exempt from VAT.
- ❖ Having considered professional and independent tax advice, the Manager reserves the right to make relevant provision on interest income if the CIT/VAT and surtaxes are not withheld at source pursuant to the relevant tax laws, rules and/or regulations.
- ❖ Having considered professional and independent tax advice, the Manager currently does not make withholding income tax or VAT provision for gross realised or unrealised capital gains derived from trading debt securities via QFII or Bond Connect.
- ❖ There are risks and uncertainties associated with the current PRC tax laws, regulations and practice in respect of investments in the PRC via QFII quota or Bond Connect (which may have retrospective effect). Any increased tax liabilities on the Fund may adversely affect the Fund's value. If taxes are levied in future on the Fund for which no provision or inadequate provision is made, the Fund's NAV will be adversely affected. In this case, the then existing and subsequent investors will be disadvantaged.

### **Risks associated with Distribution out of the Fund's Capital**

- ❖ For Income Units, payment of dividends 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 investments. Any such distributions may result in an immediate reduction of the Net Asset Value per Unit.

### **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 performance is based on the calendar year end, Unit Price-To-Unit Price, with dividend (if any) reinvested.
- ❖ These figures show by how much the Class of Units 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 Class B Units of the Fund were consolidated into Class A Units of the Fund with effect from 24 December 2014.
- ❖ Fund launch date: 2003
- ❖ Class A – Accumulation Units launch date: 2003
- ❖ The Manager views Class A – Accumulation Units, being the retail Class of Units with the longest track record and currently marketed to the public of Hong Kong, as the most appropriate representative Class of Units.
- ❖ Investors may obtain the past performance information of other Class(es) of Units (if any) from the website [www.hangsenginvestment.com](http://www.hangsenginvestment.com)<sup>▲</sup> when it has an investment track record of not less than 6 months.
- ❖ Past performance information (if any) for Class I Units is available from the Manager on request.

### Is there any guarantee?

The Fund does not have any guarantees. You may not get back the full 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 <sup>#</sup>	
Subscription Fee	Class A Units	Up to 4.0% of the issue price of the Fund
	Class I Units	Up to 2.0% of the issue price of the Fund
Switching Fee	Class A Units	Up to 2.0% of the issue price of the Fund
	Class I Units	Up to 1.0% of the issue price of the Fund
Redemption Fee	Class A Units	Nil
	Class I Units	

<sup>#</sup> Please contact the Authorised Distributor(s) 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.

	Annual rate (as a % of the Net Asset Value of the Fund)	
Management Fee <sup>▲</sup>	Class A Units	Up to 1.0%
	Class I Units	Up to 0.5%

Trustee Fee^	Class A Units	0.1%
	Class I Units	
QFII Account Custody Fee	0.25% of the Fund's assets in the account held with the selected QFII as at month-end (excluding transaction fees)	

^ Please note that the annual rate stated may be increased up to a permitted maximum rate as set out in the Explanatory Memorandum by giving 1 month's prior notice to relevant Unitholders.

### Other fees

You may have to pay other fees and charges 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, your request has to be received by the Authorised Distributor(s) of the Fund in good order on or before the dealing cutoff 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 on each Dealing Day is normally calculated on the Business Day after that Dealing Day, and is available online at [www.hangsenginvestment.com](http://www.hangsenginvestment.com)▲.
- ❖ The compositions of the dividends (if any) (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](http://www.hangsenginvestment.com)▲.
- ❖ Investors may obtain other information of the Fund from the website [www.hangsenginvestment.com](http://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.

<sup>^</sup> This website has not been reviewed by the SFC.

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