

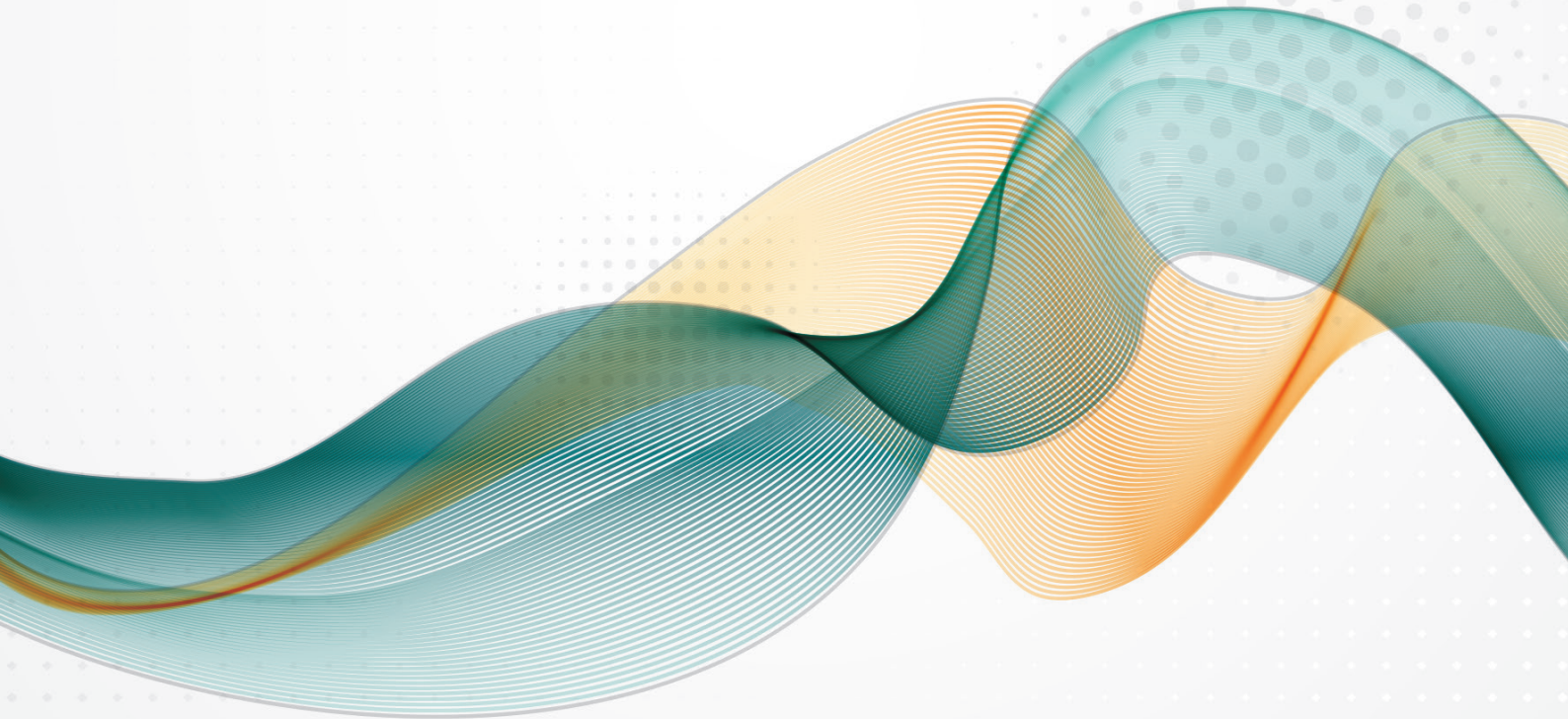


恒生投資
HANG SENG INVESTMENT

Hang Seng FTSE China 50 Index ETF

ANNUAL REPORT **2023**

1st January 2023 to 31st December 2023



Contents

Annual Financial Report 2023	2
Performance Record (Unaudited)	3
Trustee's Report	4
Independent Auditor's Report	5
Investment Portfolio (Unaudited)	9
Statement of Movements in Portfolio Holdings (Unaudited)	11
Statement of Assets and Liabilities	13
Statement of Comprehensive Income	14
Statement of Changes in Equity	15
Statement of Cash Flow	16
Notes to the Financial Statements	17
Performance of the Index and the ETF (Unaudited)	35
Comparison of Daily Closing Price and Net Asset Value per Unit of the ETF (Unaudited)	36
Index Constituent Stocks Disclosure (Unaudited)	37
Report on Investment Overweight in Constituent Stocks of the Index by the ETF (Unaudited)	38
Portfolio Carbon Footprint (Unaudited)	39
Management and Administration	40

Annual Financial Report 2023

Hang Seng Investment Index Fund Series III
Hang Seng FTSE China 50 Index ETF (Stock Code: 2838)

Performance Record (Unaudited)

Class of Units	Currency	Price Record									
		2023*		2022		2021		2020		2019	
		Highest Offer Price	Lowest Bid Price	Highest Offer Price	Lowest Bid Price	Highest Offer Price	Lowest Bid Price	Highest Offer Price	Lowest Bid Price	Highest Offer Price	Lowest Bid Price
Hang Seng FTSE China 50 Index ETF	HKD	150.9000	103.5060	175.28	93.08	244.20	159.81	211.93	148.55	206.87	171.09

Class of Units	Currency	Price Record											
		2018		2017		2016		2015		2014		2013	
		Highest Offer Price	Lowest Bid Price	Highest Offer Price	Lowest Bid Price	Highest Offer Price	Lowest Bid Price	Highest Offer Price	Lowest Bid Price	Highest Offer Price	Lowest Bid Price	Highest Offer Price	Lowest Bid Price
Hang Seng FTSE China 50 Index ETF	HKD	240.50	171.81	212.02	157.45	172.37	127.60	231.13	149.80	187.33	145.95	184.58	140.27

Class of Units	Currency	Net Asset Value Per Unit (As at 31 December)			
		2023*	2022	2021	2020
Hang Seng FTSE China 50 Index ETF	HKD	109.0036	128.8675	164.80	209.07

Class of Units	Currency	Net Assets Attributable to Unitholders (As at 31 December)			
		2023	2022	2021	2020
Hang Seng FTSE China 50 Index ETF	HKD	84,007,237	97,697,299	112,917,812	152,018,372

* The number of decimal places in the net asset value per unit has been changed from two to four with effect from 8 June 2023.

Trustee's Report

To the Unitholders of Hang Seng FTSE China 50 Index ETF

We hereby confirm that, in our opinion, the Manager, Hang Seng Investment Management Limited has, in all material respects, managed the Hang Seng FTSE China 50 Index ETF in accordance with the provisions of the Trust Deeds dated 1 June 2005, as amended, for the year ended 31 December 2023.

HSBC Institutional Trust Services (Asia) Limited
29 April 2024

Independent Auditor's Report

To the Unitholders of Hang Seng FTSE China 50 Index ETF

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Hang Seng FTSE China 50 Index ETF ("the Fund") set out on pages 13 to 34, which comprise the statement of assets and liabilities as at 31 December 2023, the statement of comprehensive income, the statement of changes in equity and the statement of cash flow for the year then ended and notes to the financial statements, including a summary of material accounting policy information.

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 December 2023 and of its financial transactions and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matter.

Independent Auditor's Report (continued)

Key Audit Matters (continued)

Existence and valuation of investments

Refer to note 14 to the financial statements and the accounting policies in note 2(f)(iv) on page 20.

The Key Audit Matter

How the matter was addressed in our audit

As at 31 December 2023 the investment portfolio represented 99.42% of the total assets of the Fund and is the key driver of the Fund's investment returns.

We identified the existence and valuation of investments as a key audit matter because of its significance in the context of the Fund's financial statements and because the value of the investment portfolio at the year end date is a key performance indicator of the Fund.

Our audit procedures to assess the existence and valuation of investments included the following:

- developing an understanding of the control objectives and related controls relevant to our audit of the Fund by obtaining the service organisation internal control report provided by the trustee setting out the controls in place, and the independent service auditor's assurance report over the design and operating effectiveness of those controls; and
- evaluating the tests undertaken by the service auditor, the results of tests undertaken and opinions formed by the service auditor on the design and operating effectiveness of the controls, to the extent relevant to our audit of the Fund; and
- obtaining independent confirmations from the custodians of the investment portfolio held at 31 December 2023, and agreeing the Fund's holdings of investments to those confirmations; and
- assessing the valuations of all assets in the investment portfolio at the year end date by comparing the prices adopted by the Fund with the prices obtained from independent pricing sources.

Information Other than the Financial Statements and Auditor's Report Thereon

The Manager and the Trustee of the Fund are responsible for the other information. The other information comprises all the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report (continued)

Responsibilities of the Manager and the Trustee of the Fund for the Financial Statements

The Manager and the Trustee of the Fund are responsible for the preparation of financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and for such internal control as the Manager and the Trustee of the Fund determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Manager and the Trustee of the Fund are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager and the Trustee of the Fund either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

In addition, the Manager and the Trustee of the Fund are required to ensure that the financial statements have been properly prepared in accordance with the relevant provisions of the Trust Deed, as amended on 14 January 2011, 7 July 2015, 28 November 2017, 9 April 2019, 10 April 2019 and 13 December 2019 for Hang Seng FTSE China 50 Index ETF ("the Trust Deed"), and the relevant disclosure provisions of Appendix E of the Code on Unit Trusts and Mutual Funds ("the SFC Code") issued by the Hong Kong Securities and Futures Commission.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. In addition, we are required to assess whether the financial statements of the Fund have been properly prepared, in all material respects, in accordance with the relevant provisions of the Trust Deed and the relevant disclosure provisions of Appendix E of the SFC Code.

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager and the Trustee of the Fund.

Independent Auditor's Report (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

- Conclude on the appropriateness of the Manager's and the Trustee's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Manager and the Trustee of the Fund regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Manager and the Trustee of the Fund with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Manager and the Trustee of the Fund, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on matters under the relevant provisions of the Trust Deed and the relevant disclosure provisions of Appendix E to the SFC Code

In our opinion, the financial statements have been properly prepared, in all material respects, in accordance with the relevant provisions of the Trust Deeds and the relevant disclosure provisions of Appendix E of the SFC Code.

The engagement partner on the audit resulting in this independent auditor's report is Yiu Tsz Yeung, Arion.

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
29 April 2024

Investment Portfolio (Unaudited)

as at 31 December 2023

Investments	Holdings	Market Value (HKD)	% of Net Assets Attributable to Unitholders
Hong Kong Stock Exchange Listed Equities			
Basic Materials			
Zijin Mining	76,000	966,720	1.15%
Consumer Discretionary			
Alibaba Group	104,400	7,892,640	9.40%
Anta Sports Products	16,600	1,257,450	1.50%
BYD	12,982	2,783,341	3.31%
China Tourism Group	1,500	114,975	0.14%
Great Wall Motor	30,000	304,200	0.36%
Haier Smart Home	30,600	674,730	0.80%
JD.com Inc	30,786	3,463,425	4.12%
Li Auto	14,300	2,103,530	2.50%
NetEase Inc	25,075	3,525,545	4.20%
Trip.com Group	7,000	1,943,200	2.31%
Yum China Holdings	5,350	1,777,270	2.12%
		25,840,306	30.76%
Consumer Staples			
China Resources Beer Holdings	21,000	718,200	0.85%
Nongfu Spring	23,000	1,038,450	1.24%
		1,756,650	2.09%
Energy			
China Petroleum & Chemical	329,513	1,347,708	1.60%
China Shenhua Energy	44,788	1,198,079	1.43%
PetroChina	274,475	1,416,291	1.69%
		3,962,078	4.72%
Financials			
Agricultural Bank of China	407,214	1,225,714	1.46%
Bank of China	1,095,717	3,265,237	3.89%
Bank of Communications	98,158	478,029	0.57%
China CITIC Bank	122,965	452,511	0.54%
China Construction Bank	1,299,522	6,042,777	7.19%
China Everbright Bank	41,238	95,672	0.11%
China International Capital	19,600	224,616	0.27%
China Life Insurance	98,063	992,398	1.18%
China Merchants Bank	50,159	1,364,325	1.62%
China Minsheng Banking	84,070	222,786	0.27%
China Pacific Insurance	34,738	547,471	0.65%
CITIC Securities	29,671	472,956	0.56%
CSC Financial	13,146	90,707	0.11%
Industrial and Commercial Bank of China	1,013,391	3,871,154	4.61%
People's Insurance	107,899	258,958	0.31%
PICC Property and Casualty	90,000	835,200	0.99%
Ping An Insurance	82,689	2,923,056	3.48%
Postal Savings Bank of China	143,058	533,606	0.64%
		23,897,173	28.45%

Investment Portfolio (Unaudited) (continued)

as at 31 December 2023

Investments	Holdings	Market Value (HKD)	% of Net Assets Attributable to Unitholders
Health Care			
Beigene	8,300	913,830	1.09%
WuXi AppTec	4,658	370,078	0.44%
WuXi Biologics	47,000	1,391,200	1.66%
		2,675,108	3.19%
Industrials			
China Railway	54,000	187,920	0.22%
CITIC	84,000	655,200	0.78%
Cosco Shipping Holdings	39,950	313,608	0.37%
CRRC Corporation	54,000	185,760	0.22%
		1,342,488	1.59%
Real Estate			
China Overseas Land & Investment	50,500	694,880	0.83%
China Resources Land	36,710	1,027,880	1.22%
China Vanke	29,157	210,513	0.25%
		1,933,273	2.30%
Technology			
Baidu	29,200	3,390,120	4.03%
Kuaishou Technology	34,500	1,826,775	2.17%
Meituan	74,428	6,095,653	7.26%
Tencent Holdings	24,108	7,078,109	8.43%
		18,390,657	21.89%
Telecommunications			
Xiaomi Corporation	194,000	3,026,400	3.60%
Total Investments <i>(Total cost of investments – HKD119,637,771)</i>		83,790,853	99.74%
Other Net Assets		216,384	0.26%
Net Assets Attributable to Unitholders		84,007,237	100.00%

Statement of Movements in Portfolio Holdings (Unaudited)

for the period from 1 January 2023 to 31 December 2023

Investments	Holdings as at 1 January 2023	Additions	Disposals	Holdings as at 31 December 2023
Hong Kong Stock Exchange Listed Equities				
Basic Materials				
Ganfeng Lithium	5,840	200	6,040	–
Zijin Mining	88,000	8,000	20,000	76,000
Consumer Discretionary				
Alibaba Group	96,800	27,600	20,000	104,400
Anta Sports Products	17,400	3,000	3,800	16,600
BYD	12,500	2,500	2,018	12,982
China Tourism Group	–	1,900	400	1,500
Great Wall Motor	47,000	2,500	19,500	30,000
Haier Smart Home	35,600	2,600	7,600	30,600
JD.com Inc	26,136	8,250	3,600	30,786
Li Auto	–	15,800	1,500	14,300
Li Ning	34,000	–	34,000	–
NetEase Inc	27,500	2,575	5,000	25,075
Trip.com Group	–	7,550	550	7,000
Yum China Holdings	6,350	450	1,450	5,350
Consumer Staples				
China Resources Beer Holdings	23,000	8,000	10,000	21,000
JD Health International	11,300	4,350	15,650	–
Nongfu Spring	27,000	2,000	6,000	23,000
Energy				
China Longyuan Power Group	52,000	–	52,000	–
China Petroleum & Chemical	379,513	28,000	78,000	329,513
China Shenhua Energy	51,788	5,000	12,000	44,788
PetroChina	318,475	28,000	72,000	274,475
Yanzhou Coal Mining	28,000	–	28,000	–
Financials				
Agricultural Bank of China	473,214	38,000	104,000	407,214
Bank of China	1,137,717	149,000	191,000	1,095,717
Bank of Communications	111,433	9,000	22,275	98,158
China CITIC Bank	143,965	12,000	33,000	122,965
China Construction Bank	1,005,522	379,000	85,000	1,299,522
China Everbright Bank	48,238	5,000	12,000	41,238
China International Capital	22,800	1,600	4,800	19,600
China Life Insurance	114,063	10,000	26,000	98,063
China Merchants Bank	56,659	5,500	12,000	50,159
China Minsheng Banking	98,070	24,000	38,000	84,070
China Pacific Insurance	39,601	3,000	7,863	34,738
CITIC Securities	34,171	3,500	8,000	29,671
CSC Financial	14,000	6,646	7,500	13,146
Industrial and Commercial Bank of China	1,116,391	148,000	251,000	1,013,391
People's Insurance	125,899	11,000	29,000	107,899
PICC Property and Casualty	–	102,000	12,000	90,000
Ping An Insurance	84,189	10,500	12,000	82,689
Postal Savings Bank of China	143,058	28,000	28,000	143,058

Statement of Movements in Portfolio Holdings (Unaudited) (continued)

for the period from 1 January 2023 to 31 December 2023

Investments	Holdings as at 1 January 2023	Additions	Disposals	Holdings as at 31 December 2023
Health Care				
Beigene	–	8,300	–	8,300
WuXi AppTec	5,208	700	1,250	4,658
WuXi Biologics	53,000	4,000	10,000	47,000
Industrials				
Anhui Conch Cement	17,765	2,500	20,265	–
China Railway	62,000	4,000	12,000	54,000
CITIC	76,000	23,000	15,000	84,000
Cosco Shipping Holdings	49,950	8,000	18,000	39,950
CRRC Corporation	–	59,000	5,000	54,000
Real Estate				
China Overseas Land & Investment	59,000	4,000	12,500	50,500
China Resources Land	42,349	8,000	13,639	36,710
China Vanke	29,257	6,100	6,200	29,157
Technology				
Baidu	32,500	3,100	6,400	29,200
Kuaishou Technology	28,800	12,000	6,300	34,500
Meituan	46,798	34,430	6,800	74,428
Tencent Holdings	27,308	2,900	6,100	24,108
Telecommunications				
Xiaomi Corporation	218,600	19,200	43,800	194,000
British Virgin Islands Unlisted Equity				
China Common	500,000	–	500,000	–
Unlisted Rights				
WuXi Biologic (December 2049)	–	105	105	–

Statement of Assets and Liabilities

as at 31 December 2023

	Notes	31 December 2023 (HKD)	31 December 2022 (HKD)
Assets			
Financial assets at fair value through profit or loss	5,6,14	83,790,853	97,613,971
Dividend receivable		105,949	10,471
Other accounts receivable	10(e)	43	4
Cash and cash equivalents	10(e)	381,340	351,686
Total Assets		84,278,185	97,976,132
Liabilities			
Accrued expenses and other payables	10(a),(b)&(d)	270,948	278,833
Total Liabilities		270,948	278,833
Net assets attributable to unitholders		84,007,237	97,697,299
Representing:			
Total Equity		84,007,237	97,697,299
Total number of units in issue	10(g),11	770,683	758,122
Net asset value per unit*	11	109.0036	128.8675

* The number of decimal places in the net asset value per unit has been changed from two to four with effect from 8 June 2023.

Approved and authorised for issue by the Trustee and the Manager on 29 April 2024.

} For and on behalf of
} Trustee
} HSBC Institutional Trust Services (Asia) Limited

} For and on behalf of
} Manager
} Hang Seng Investment Management Limited

The notes on page 17 to page 34 form part of the financial statements.

Statement of Comprehensive Income

for the year ended 31 December 2023

	Notes	Year ended 31 December 2023 (HKD)	Year ended 31 December 2022 (HKD)
Income			
Dividend income	7	3,034,382	3,369,230
Interest income	8,10(e)	6,535	438
		3,040,917	3,369,668
Expenses			
Auditor's remuneration		(60,078)	(60,081)
Legal and professional fees		(48,637)	(50,398)
Management fees	10(a)	(529,487)	(559,238)
Registrar's fees	10(b)	(21,250)	(15,600)
Safe custody and bank charges	10(d)	(3,800)	(4,040)
Sundry expenses	10(b)&(d)	(321,061)	(368,153)
Investment transaction costs	10(c)	(61,233)	(95,527)
Transaction fees paid to trustee	10(b)	(2,400)	(2,700)
Trustee's fees	10(b)	(48,135)	(50,840)
Valuation fees	10(b)	(97,200)	(98,400)
		(1,193,281)	(1,304,977)
Income before losses on investments		1,847,636	2,064,691
Losses on investments			
Net losses on investments	9	(15,277,002)	(25,441,182)
Net foreign exchange gain/(loss)		27	(131)
Securities expenses	10(d)	(21,182)	(28,346)
		(15,298,157)	(25,469,659)
Loss before finance costs		(13,450,521)	(23,404,968)
Finance costs			
Interest expenses	10(f)	(188)	–
Loss before taxation		(13,450,709)	(23,404,968)
Taxation	4,7	(257,826)	(281,713)
Loss attributable to unitholders and total comprehensive income for the year		(13,708,535)	(23,686,681)

The notes on page 17 to page 34 form part of the financial statements.

Statement of Changes in Equity

for the year ended 31 December 2023

	Notes	Year ended 31 December 2023 (HKD)	Year ended 31 December 2022 (HKD)
Balance at beginning of year		97,697,299	112,917,812
Loss attributable to unitholders and total comprehensive income for the year		(13,708,535)	(23,686,681)
Transaction with owners (i.e. unitholders), recorded directly in equity			
Received and receivable on issue of units	10(h)	7,428,739	14,478,622
Paid and payable on redemption of units	10(h)	(5,772,053)	(4,067,167)
Distributions to unitholders	10(g),13	(1,638,213)	(1,945,287)
Total transactions with owners (i.e. unitholders)		18,473	8,466,168
Balance at year end		84,007,237	97,697,299

	Notes	Year ended 31 December 2023	Year ended 31 December 2022
Movement of units in issue is listed below:			
Number of units brought forward		758,122	685,182
Number of units issued during the year		59,540	101,540
Number of units redeemed during the year		(46,979)	(28,600)
Number of units carried forward	11	770,683	758,122

The notes on page 17 to page 34 form part of the financial statements.

Statement of Cash Flow

for the year ended 31 December 2023

	Year ended 31 December 2023 (HKD)	Year ended 31 December 2022 (HKD)
Operating activities		
Payment for legal and professional fees	(48,637)	(50,398)
Payment for auditor's remuneration	(60,001)	(60,079)
Payment for management fees	(536,181)	(567,405)
Payment for fees paid to trustee	(207,542)	(206,259)
Payment for investment transaction costs	(61,233)	(95,527)
Payment for safe custody and bank charges	(3,847)	(4,090)
Payment for other operating expenses	(285,356)	(414,443)
Net cash used in operating activities	(1,202,797)	(1,398,201)
Investing activities		
Payment for securities expenses	(19,524)	(29,941)
Distribution income received	2,681,078	3,093,408
Interest received	6,496	435
Proceeds from sale of investments	22,291,802	24,425,698
Payments for purchase of investments	(23,745,686)	(35,109,539)
Net cash generated from/(used in) investing activities	1,214,166	(7,619,939)
Financing activities		
Payment for interest expenses	(188)	–
Proceeds on issue of units	7,428,739	14,478,622
Payments on redemption of units	(5,772,053)	(4,067,167)
Distributions paid to unitholders	(1,638,213)	(1,945,287)
Net cash generated from financing activities	18,285	8,466,168
Net increase/(decrease) in cash and cash equivalents	29,654	(551,972)
Cash and cash equivalents at the beginning of the year	351,686	903,658
Cash and cash equivalents at the end of the year	381,340	351,686

The notes on page 17 to page 34 form part of the financial statements.

Notes to the Financial Statements

1. Background

Hang Seng FTSE China 50 Index ETF (the "Fund") is authorised by the Securities and Futures Commission in Hong Kong ("SFC") under Section 104(1) of the Hong Kong Securities and Futures Ordinance, and is governed by the Hong Kong Code on Unit Trusts and Mutual Fund ("the SFC Code").

Hang Seng FTSE China 50 Index ETF was constituted by a Trust Deed dated 1 June 2005, as amended from time to time under the laws of Hong Kong, and registered on the same date as a unit trust under the laws of Hong Kong.

The investment objective of the Fund is to match, before expenses, as closely as practicable, the performance of FTSE China 50 Index by holding a basket of the constituent stocks of the Indexes.

As at 31 December 2023, 41% (2022: 45%) of the redeemable units of Hang Seng FTSE China 50 Index ETF were held by Hang Seng China Index Fund. Hang Seng China Index Fund remains the major unitholder of Hang Seng FTSE China 50 Index ETF.

2. Material accounting policies

(a) Statement of compliance

The financial statements of the Fund have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong, the relevant provisions of the respective Trust Deed, as amended, and the relevant disclosure provisions of the SFC Code issued by the SFC. A summary of the material accounting policies adopted by the Fund is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Fund. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Fund for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The functional and presentation currency of the financial statements is Hong Kong dollars, which is the reporting currency of the units in issue of the Fund. All figures are rounded to the nearest dollar.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that investments are stated at their fair value as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires the Manager and the Trustee to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The areas involving a higher degree of judgement relate to the determination of fair value of suspended equities with significant unobservable inputs and are disclosed in note 14.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Notes to the Financial Statements (continued)

2. Material accounting policies (continued)

(c) Income and expenses

Interest income and expenses are recognised as they accrue under the effective interest method using the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or financial liability to the gross carrying amount of the financial asset or financial liability. Dividend income is recognised when the underlying securities are quoted ex-dividend. Dividend income and interest income is presented gross of any non-recoverable withholding taxes, which are disclosed separately in profit or loss. All other income and expenses are accounted for on an accruals basis.

(d) Taxation

Taxation for the year comprises current tax which is recognised in profit or loss.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the date of statement of assets and liabilities. Current tax includes non-recoverable withholding taxes on investment income.

(e) Translation of foreign currency

Foreign currency transactions during the year are translated into Hong Kong dollars at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the foreign exchange rates ruling at the date of statement of assets and liabilities. Exchange gains and losses are recognised in profit or loss. Exchange differences relating to investments at fair value through profit or loss are included in gains/losses on investments.

(f) Financial instruments

(i) Classification

On initial recognition, the Fund classifies financial assets as measured at amortised cost or fair value through profit or loss ("FVTPL").

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI").

All other financial assets of the Fund are measured at FVTPL.

Business model assessment

In making an assessment of the objective of the business model in which a financial asset is held, the Fund considers all of the relevant information about how the business is managed, including:

- the investment strategy in the offering document of the Fund and the execution of this strategy in practice. This includes whether the investment strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Fund's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

Notes to the Financial Statements (continued)

2. Material accounting policies (continued)

(f) Financial instruments (continued)

(i) Classification (continued)

Business model assessment (continued)

- how the compensation to investment manager is determined: e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Fund's continuing recognition of the assets.

The Fund has determined that it has two business models.

- Held-to-collect business model: this includes dividend receivable, other accounts receivable and cash and cash equivalents. These financial assets are held to collect contractual cash flows.
- Other business model: this includes equity instruments. These financial assets are managed and their performance is evaluated, on a fair value basis, with frequent sales taking place.

Assessment whether contractual cash flows are SPPI

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are SPPI, the Fund considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Fund considers:

- contingent events that would change the amount or timing of cash flows;
- leverage features;
- prepayment and extension features;
- terms that limit the Fund's claim to cash flows from specified assets (e.g. non-recourse features); and
- features that modify consideration for the time value of money (e.g. periodical reset of interest rates).

The Fund classify its investments based on the business model and contractual cash flows assessment. Accordingly, the Fund classify all their equity instruments into financial assets at FVTPL category. Financial assets measured at amortised cost include dividend receivable, other accounts receivable and cash and cash equivalents. Financial liabilities that are not at fair value through profit or loss include accrued expenses and other payables.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition unless the Fund was to change its business model for managing financial assets, in which case all affected financial assets would be reclassified on the first day of the first reporting period following the change in the business model.

Notes to the Financial Statements (continued)

2. Material accounting policies (continued)

(f) Financial instruments (continued)

(ii) Recognition

The Fund recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instruments.

A regular way purchase or sale of financial assets or financial liabilities at fair value through profit or loss is recognised on a trade date basis. From this date, any gains or losses arising from changes in fair value of the financial assets or financial liabilities at fair value through profit or loss are recorded.

Financial liabilities are not recognised unless one of the parties has performed their obligations under the contract or the contract is a derivative contract not exempted from the scope of HKFRS 9.

(iii) Measurement

Financial instruments are measured initially at fair value (transaction price). Transaction costs on financial assets and liabilities at fair value through profit or loss are expensed immediately.

Subsequent to initial recognition, all instruments classified at fair value through profit or loss are measured at fair value with changes in their fair values recognised in profit or loss.

Financial assets classified as measured at amortised cost are carried at amortised cost using the effective interest rate method, less impairment losses, if any.

Financial liabilities, other than those at fair value through profit or loss, are measured at amortised cost using the effective interest rate method.

(iv) Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Fund has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Fund measure the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Fund use valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The Fund recognises transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change has occurred.

Net gains or losses on investments are included in profit or loss. Realised gains or losses on investments and unrealised gains or losses on investments arising from a change in fair value are provided in note 9. Net realised gains or losses from financial instruments at fair value through profit or loss is calculated using the average cost method.

Notes to the Financial Statements (continued)

2. Material accounting policies (continued)

(f) Financial instruments (continued)

(v) Derecognition

A financial asset is derecognised when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership, have been transferred.

Financial assets measured at FVTPL that are sold are derecognised and corresponding receivables from brokers are recognised as of the date the Fund commits to sell the assets.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

A regular way purchase or sale of financial assets or financial liabilities at fair value through profit or loss is recognised on a trade date basis. From this date, any gains or losses arising from changes in fair value of the financial assets or financial liabilities at fair value through profit or loss are recorded.

On derecognition of a financial asset, the difference between the carrying value of the asset and the consideration received is recognised in profit or loss.

(vi) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of assets and liabilities when the Fund has a legally enforceable right to offset the recognised amounts and the transactions are intended to be settled on a net basis or simultaneously, e.g. through a market clearing mechanism.

(g) Related parties

(a) A person, or a close member of that person's family, is related to the Fund if that person:

(i) has control or joint control over the Fund;

(ii) has significant influence over the Fund; or

(iii) is a member of the key management personnel of the Fund or the Fund's parent.

Notes to the Financial Statements (continued)

2. Material accounting policies (continued)

(g) Related parties (continued)

(b) An entity is related to the Fund if any of the following conditions applies:

- (i) The entity and the Fund are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of an entity related to the Fund.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity or any member of a group of which it is a part, provides key management personnel services to the Fund or to the Fund's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(i) Units in issue

The Fund classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

A puttable financial instrument that includes a contractual obligation for the issuer to repurchase or redeem that instrument for cash or another financial asset is classified as equity instruments if it meets the following conditions:

- (i) it entitles the holder to a pro rata share of the Fund's net assets in the event of the Fund's liquidation;
- (ii) it is in the class of instruments that is subordinate to all other classes of instruments;
- (iii) all financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features;
- (iv) apart from the contractual obligation for the Fund to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any other features that would require classification as a liability; and

Notes to the Financial Statements (continued)

2. Material accounting policies (continued)

(i) Units in issue (continued)

- (v) the total expected cash flows attributable to the instrument over its life are based substantially on profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Fund over the life of the instrument.

Hang Seng FTSE China 50 Index ETF has only one class in issue and their redeemable units meet all of these conditions and are classified as equity instruments.

(j) Segment reporting

An operating segment is a component of the Fund that engages in business activities from which they may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Fund's other components, whose operating results are reviewed regularly by the chief operating decision maker to make decisions about resources allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The chief operating decision maker of the Fund is identified as the Manager, Hang Seng Investment Management Limited.

(k) Income equalisation on subscriptions and redemptions

Income portion of received and receivable on issue of units or paid and payable on redemption of units is calculated based on the portion of the unit price related to undistributed accumulated net investment income and accumulated expenses of the unit at the date of issue or redemption.

(l) Investment transaction costs

Investment transaction costs are costs incurred to purchase or sale of investments at fair value through profit or loss. They include fees and commissions paid to agents, brokers and dealers. Transaction costs, when incurred, are immediately recognised in profit or loss as an expense.

(m) Formation costs

Formation costs of the Fund are charged to profit or loss as incurred.

3. Changes in accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Fund. None of these impact on the accounting policies of the Fund.

- Amendments to HKAS 1, *Presentation of financial statements and HKFRS Practice Statement 2, Making materiality judgements: Disclosure of accounting policies*
- Amendments to HKAS 1, *Presentation of financial statements: Classification of liabilities as current or non-current*
- Amendments to HKAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimate*
- Amendments to HKAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*

The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 16).

Notes to the Financial Statements (continued)

4. Taxation

No provision for Hong Kong Profits Tax has been made in the financial statements as the income of the Fund are exempt from taxation under Section 26A(1A) of the Hong Kong Inland Revenue Ordinance.

Taxation for the year represents non-recoverable withholding tax on dividend income which is recorded gross of withholding tax in profit or loss.

5. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss as of 31 December 2023 and 31 December 2022 are as follows:

	Market Value	
	2023 (HKD)	2022 (HKD)
Listed equities	83,790,853	97,613,971
Total financial assets at fair value through profit or loss	83,790,853	97,613,971

6. Financial risk management

The Fund maintain investment portfolios in the constituent stocks of the Indexes as dictated by their investment management strategy, but are not limited to equity instruments and derivatives. The Fund's investment objective is to match, before expenses, as closely as practicable, the performance of the Indexes against which the Fund are benchmarked. The Manager primarily adopts a replication strategy to achieve the investment objective of the Fund. When there is a change in the constituent stocks of the Indexes or the weighting of the constituent stocks in the Indexes, the Manager will be responsible for implementing any adjustment to the Fund's portfolio of stocks to ensure that the Fund's investment portfolios closely correspond to the composition of the Indexes and the weighting of each constituent stock.

The Fund's investing activities expose them to various types of risks that are associated with the financial instruments and markets in which they invest. To comply with HKFRS 7, the Manager has set out below the most important types of financial risks inherent in the financial instruments held by the Fund. The Manager would like to highlight that the following list of associated risks only sets out some of the risks but does not purport to constitute an exhaustive list of all the risks inherent in an investment in the Fund. Investors should note that additional information in respect of risks associated with the investments in the Fund can be found in the Fund's Hong Kong Offering Document ("HKOD").

The nature and extent of the financial instruments outstanding at the year end date and the risk management policies employed by the Fund are discussed below.

Notes to the Financial Statements (continued)

(a) Market risk

Market risk arises when the fair value and future cash flows of a financial instrument will fluctuate because of changes in market prices and includes price risk, interest rate risk and currency risk.

(i) Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market. The Fund are exposed to price risk arising from changes in market prices of equity instruments and market prices of the underlying indices.

The Manager constructs the portfolio through adopting replication strategy. The Fund are not actively managed and the Manager does not have the discretion to select stocks or to take defensive position in declining market. Hence, any fall in the underlying index will result in a corresponding fall in the value of the Fund.

All investments of the Fund, apart from China Common which is delisted, are constituent stocks of the Indexes listed on The Stock Exchange of Hong Kong ("SEHK"). The Fund estimate the future reasonably possible market price fluctuations for equity investments on an overall basis. If the relevant indexes at 31 December 2023 had increased/decreased by 20% (2022: 20%), it is estimated that the net assets attributable to unitholders of the Fund would have increased/decreased accordingly as shown below. The analysis assumes that all other variables, in particular, interest rates remain constant.

Fund	Currency	Estimated Increase/(Decrease) in Net Assets Attributable to Unitholders				
		Benchmark/ Underlying Assets	If Underlying Assets Increased by 20%	If Underlying Assets Increased by 20%	If Underlying Assets Decreased by 20%	
			2023	2022	2023	
Hang Seng FTSE China 50 Index ETF	HKD	FTSE China 50 Index	16,758,171	19,522,794	(16,758,171)	(19,522,794)

(ii) Interest rate risk

Interest rate risk arises from changes in interest rates which may inversely affect the value of interest bearing assets and therefore results in potential gain or loss to the Fund. Except for bank deposits, all the financial assets and liabilities of the Fund are non-interest bearing. As a result, the Fund have limited exposure to interest rate risk.

(iii) Currency risk

All the financial assets and liabilities of the Fund are denominated in Hong Kong dollars, the functional currency of the Fund, and as such the Fund have limited exposure to currency risk.

Notes to the Financial Statements (continued)

(b) Credit risk

Analysis of credit risk management policy and concentration of credit risk

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered small due to the short settlement period involved and the high quality of the brokers used. The Manager monitors the credit rating and financial positions of the brokers used to further mitigate this risk.

HSBC Institutional Trust Services (Asia) Limited is the Trustee of the Fund. Bankruptcy or insolvency of the Trustee may cause the Fund's rights with respect to the assets to be delayed or limited. The Manager monitors the risk by monitoring the credit quality of the Trustee on an on-going basis.

All of the investments of the Fund are held by The Hongkong and Shanghai Banking Corporation Limited (the "Custodian"). Bankruptcy or insolvency of the Custodian may cause the Fund's rights with respect to investments held by the Custodian to be delayed or limited. The Manager monitors its risk by monitoring the credit rating of the Custodian on an on-going basis.

All of the cash held by the Fund are deposited with The Hongkong and Shanghai Banking Corporation Limited ("HSBC"). Bankruptcy or insolvency of HSBC may cause the Fund's rights with respect to the cash held by HSBC to be delayed or limited. The Manager monitors its risk by monitoring the credit rating of HSBC on an on-going basis.

Other than outlined above, there were no significant concentrations of credit risk to counterparties at 31 December 2023 and 31 December 2022.

(c) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations arising from its financial liabilities that are settled by delivering cash or another financial asset, or that such obligations will have to be settled in a manner disadvantageous to the Fund.

The Fund and the Manager have policies and procedures to manage liquidity to meet its liability including estimated redemption of units, as and when due, without incurring undue losses or risking damage to the Fund's reputation.

HKOD provide for the daily creation and cancellation of units and the Fund are therefore exposed to the liquidity of meeting unitholder redemptions daily. All other financial liabilities are repayable on demand or have contractual maturities less than three months.

The majority of the Fund's financial assets are listed equity investments which are considered to be readily realisable as they are all listed on the SEHK. As a result, the Fund are able to liquidate quickly its investments in order to meet its liquidity requirements.

Notes to the Financial Statements (continued)

The Fund's liquidity risk is managed on a daily basis by the Manager in accordance with the policies and procedures in place. The Fund's redemption policy allows redemption to be made:

- through participating dealers by any investor with a basket of constituent stocks of the Index and a minor cash component, or wholly with cash. The minimum redemption unit size for Hang Seng FTSE China 50 Index ETF is 50,000 units;
- through the Manager by the feeder fund with a basket of constituent stocks of the Indexes and a minor cash component or wholly with cash at a minimum of 1 unit, the feeder fund of Hang Seng FTSE China 50 Index ETF is Hang Seng China Index Fund.

The Manager has the right to declare suspension of unitholders' right to redeem units under certain conditions, such as when SEHK is closed; dealings on the SEHK or the Hong Kong Futures Exchange Limited are restricted or suspended; or the Indexes are not compiled or published, etc. in accordance with the HKOD.

(d) Capital Management

The Fund's capital as at the year end date is represented by their redeemable units.

The Fund's objective in managing the capital is to ensure a stable and strong base to maximise returns to all investors, and to manage liquidity risk arising from the redemptions. The Manager manages the capital of the Fund in accordance with the Fund's investment objectives and policies stated in the HKOD.

There were no changes in the policies and procedures during the year with respect to the Fund's approach to its capital management.

The Fund are not subject to externally imposed capital requirements.

The amount and the movement of equity are stated in the statement of changes in equity. As the redeemable units are redeemed on demand at the unitholders' option, the actual level of redemption may differ significantly from the historic experience.

7. Dividend income

The amounts of dividend income and net dividend income, which was net of any non-recoverable withholding taxes, earned by the Fund during the year are shown below.

Fund	Currency	Dividend income		Withholding taxes		Net Dividend Income	
		2023	2022	2023	2022	2023	2022
Hang Seng FTSE China 50 Index ETF	HKD	3,034,382	3,369,230	(257,826)	(281,713)	2,776,556	3,087,517

Notes to the Financial Statements (continued)

8. Interest income

During the year, the Fund earned interest income from cash and cash equivalents as shown in the table below.

Fund	Currency	Cash and cash equivalent		Net Interest Income	
		2023	2022	2023	2022
Hang Seng FTSE China 50 Index ETF	HKD	6,535	438	6,535	438

9. Net losses on investments

During the year, the Fund disposed of equity instruments and earned or incurred realised and unrealised gains or losses as shown below.

Fund	Currency	Net losses on investments in equity instruments		Net losses on investments	
		2023	2022	2023	2022
Hang Seng FTSE China 50 Index ETF	HKD	(15,277,002)	(25,441,182)	(15,277,002)	(25,441,182)

Fund	Currency	Realised losses from investments		Movement on unrealised gains or losses		Net losses on investments	
		2023	2022	2023	2022	2023	2022
Hang Seng FTSE China 50 Index ETF	HKD	(11,267,462)	(9,874,035)	(4,009,540)	(15,567,147)	(15,277,002)	(25,441,182)

10. Transactions with the Trustee, the Manager and their Connected Persons

The following is a summary of significant related party transactions or transactions entered into during the year between the Fund and the Trustee, the Manager and their Connected Persons. Connected Persons are those as defined in the SFC Code issued by the SFC. All transactions during the year between the Fund, the Trustee, the Manager and their Connected Persons were entered into in the ordinary course of business and under normal commercial terms. To the best of the knowledge of the Trustee and the Manager, the Fund did not have any other transactions with the Trustee, the Manager and their Connected Persons except for those disclosed below. The relevant receivables and payables are unsecured, interest-free and repayable on demand.

- (a) Hang Seng Investment Management Limited, a wholly-owned subsidiary of Hang Seng Bank ("HSB"), which is a member of the HSBC Group, is the Manager of the Fund. The Manager earns management fees at a rate of 0.55% of net asset value per annum. Management fees are calculated as at each dealing day and payable monthly. Management fees paid during the year and management fees payable to the Manager at the year end date are shown below.

	Hang Seng FTSE China 50 Index ETF	
	2023 (HKD)	2022 (HKD)
Management fees paid during the year	529,487	559,238
Management fees payable	38,431	45,125

Notes to the Financial Statements (continued)

10. Transactions with the Trustee, the Manager and their Connected Persons (continued)

- (b) HSBC Institutional Trust Services (Asia) Limited, a member of the HSBC Group was appointed as the Trustee of the Fund. The Trustee earns trustee's fee based on the fee table below.

	Hang Seng FTSE China 50 Index ETF
Trustee's fee rate (p.a.)	0.05%
Minimum monthly trustee's fees (in HKD)	–
Processing fee for handling each purchase or sale of investments (in HKD)	35
Valuation fee per valuation (in HKD)	400
Processing fee for handling each creation/redemption/transfer of units (in HKD)	100

The Trustee also earned fees for providing various services to the Fund during the year as shown below. Details of such fee paid during the year and such fees payable at the year end date shown below:

	Hang Seng FTSE China 50 Index ETF	
	2023 (HKD)	2022 (HKD)
Transaction fees paid to trustee		
– paid to HSBC Institutional Trust Services (Asia) Limited	2,400	2,700
Trustee's fees		
– paid to HSBC Institutional Trust Services (Asia) Limited	48,135	50,840
Registrar's fees		
– paid to HSBC Institutional Trust Services (Asia) Limited	21,250	15,600
Valuation fees		
– paid to HSBC Institutional Trust Services (Asia) Limited	97,200	98,400
Financial reporting fee		
– paid to HSBC Institutional Trust Services (Asia) Limited	39,079	51,982
Fees payable to Trustee		
– paid to HSBC Institutional Trust Services (Asia) Limited	49,442	48,919

- (c) HSBC acts in the role as one of the Participating Dealers of the Fund but there was no in-kind and in-cash creation and redemption in units of the Fund performed in the year of 2022 and 2023. The Fund also utilise the services of HSBC for part of the purchase and sale of investments for the year ended 31 December 2023. Details of such transactions executed and fees paid during the year are shown below.

	Hang Seng FTSE China 50 Index ETF	
	2023	2022
Value of transactions executed through HSBC (in HKD)	1,961,349	25,333,133
Share of total value of transactions of the Fund	4.26%	42.55%
Commission paid to HSBC (in HKD)	392	5,066
Average commission rate	0.02%	0.02%

Notes to the Financial Statements (continued)

10. Transactions with the Trustee, the Manager and their Connected Persons (continued)

- (d) Also, the Fund utilise the services of HSBC and pay securities expenses and safe custody and bank charges to HSBC. Details of such fees paid during the year and such fees payable at the year end date are shown below.

	Hang Seng FTSE China 50 Index ETF	
	2023 (HKD)	2022 (HKD)
Securities expenses paid to HSBC during the year	21,182	28,346
Safe custody and bank charges paid to HSBC during the year	3,800	4,040
Securities expenses payable to HSBC as of year end	2,448	791
Safe custody payable to HSBC as of year end	285	332

- (e) Certain bank accounts are maintained with HSBC. The bank balances as at year end date, interest income earned during the year and interest receivable as at year end date are shown below.

	Hang Seng FTSE China 50 Index ETF	
	2023 (HKD)	2022 (HKD)
HSBC bank balances as of year end	381,340	351,686
Interest income earned from HSBC during the year	6,535	438
Interest receivable from HSBC as of year end	43	4

- (f) HSBC provides an uncommitted overdraft facility to the Fund. The details of uncommitted overdraft facility and interest expenses paid during the year are shown below.

Fund	Currency	Year	Uncommitted overdraft facility as at 31 December	Interest rate	Interest expenses paid during the year
Hang Seng FTSE China 50 Index ETF	HKD	2023	Lesser of: (i) USD1,740,000; (ii) 10% of net value assets in HSBC custody; and (iii) 10% of net asset value	USD Best Lending Rate	188
		2022	Lesser of: (i) USD1,740,000; (ii) 10% of net value assets in HSBC custody; and (iii) 10% of net asset value	USD Best Lending Rate	-

- (g) Hang Seng China Index Fund is considered as the major unitholder of Hang Seng FTSE China 50 Index ETF. Number of units of Hang Seng FTSE China 50 Index ETF held by Hang Seng China Index Fund as of the year end date and the distributions earned from Hang Seng FTSE China 50 Index ETF by the fund during the year are shown below.

	2023	2022
Number of unit holdings in Hang Seng FTSE China 50 Index ETF as of year end	316,183	343,422
Distributions earned from Hang Seng FTSE China 50 Index ETF during the year (in HKD)	701,803	861,522

Notes to the Financial Statements (continued)

10. Transactions with the Trustee, the Manager and their Connected Persons (continued)

(h) Hang Seng China Index Fund, as the major unitholder of Hang Seng FTSE China 50 Index ETF, made cash creation and cash redemption in the Fund, also purchased and sold units of the Fund through SEHK during the year. The amounts and units of creation/redemption and purchase/sell activities are shown below.

	Hang Seng FTSE China 50 Index ETF	
	2023	2022
Cash creation amount (in HKD)	1,134,568	14,478,622
Cash creation units	9,540	101,540
Cash redemption amount (in HKD)	5,772,053	4,067,167
Cash redemption units	46,979	28,600
Purchase amount (in HKD)	1,305,343	1,211,024
Purchase units	10,400	11,300
Sell amount (in HKD)	25,731	–
Sell units	200	–

(i) The directors and officers of the Manager may transact in the units of the Fund as principal. As at 31 December 2023, the directors and officers of the Manager together do not hold any unit in Hang Seng FTSE China 50 Index ETF (2022: Nil).

11. Units in issue and net asset value per unit

The units in issue and net asset value per unit as at 31 December 2023 and 31 December 2022 were shown below.

	Class of units (Currency)	2023		2022	
		Units in issue	NAV per unit	Units in issue	NAV per unit
Hang Seng FTSE China 50 Index ETF	Listed Class (HKD)	770,683	HKD109.0036	758,122	HKD128.8675

12. Soft dollar commission

As regards to the Fund, the Manager has not entered into any soft dollar commission arrangements with brokers.

13. Distributions

Details of distributions during the year are shown below:

Fund	Date of Cash Dividend Determination	Date of Cash Dividend Determination	Distribution per Unit	Distribution per Unit
	2023	2022	2023	2022
Hang Seng FTSE China 50 Index ETF	19-09-2023	19-09-2022	HKD1.60	HKD1.25
	29-06-2023	23-06-2022	HKD0.50	HKD1.30

Notes to the Financial Statements (continued)

13. Distributions (continued)

	Hang Seng FTSE China 50 Index ETF	
	Year ended 31 December 2023	Year ended 31 December 2022
	(HKD)	(HKD)
Undistributed income brought forward	267,140	248,754
Income before losses on investments	1,847,636	2,064,691
Interest expenses	(188)	–
Taxation	(257,826)	(281,713)
Income portion of received and receivable on issue of units	263,161	271,389
Income portion of paid and payable on redemption of units	(154,599)	(90,694)
Amount available for distribution to unitholders	1,965,324	2,212,427
Distribution to unitholders	(1,638,213)	(1,945,287)
Undistributed income carried forward	327,111	267,140

14. Fair value information

The Fund's investments are measured at fair value on the date of the statement of assets and liabilities. Fair value estimates are made at a specified point in time, based on market conditions and information about the financial instruments. With the involvement of unobservable factors and judgement, fair value can be reliably determined within a reasonable range of estimates. For certain other financial instruments, including amounts receivable on subscription of units, amounts receivable on sale of investments, dividend receivable, other accounts receivable, cash and cash equivalents, amounts payable on purchase of investments, amounts payable on redemption of units and accrued expenses and other payables, the carrying amounts approximate fair value due to the intermediate or short-term nature of these financial instruments.

Valuation of financial instruments

The Fund's accounting policy on fair value measurements is detailed in accounting policy in note 2(f)(iv). The Fund measure fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

- Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). The category includes instruments valued using: quoted market price in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments but for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Majority of investments held by the Fund are listed on SEHK. Their fair values are based on quoted market prices in active markets and grouped into Level 1 investment in the fair value hierarchy. Level 3 investments represent equity instruments which was unlisted and suspended for trading and in these financial statements they were valued through market approach using comparable analysis based on relevant news and information. For all other financial instruments, their carrying amounts approximate fair value due to the intermediate or short-term nature of these financial instruments.

Notes to the Financial Statements (continued)

14. Fair value information (continued)

Valuation of financial instruments (continued)

The table below presents the carrying value of financial instruments measured at fair value at the date of the statement of assets and liabilities across the three levels of fair value hierarchy. As of 31 December 2022, Level 3 financial instrument represent China Common. Hanergy Thin Film Power was suspended for trading in May 2015 and delisted in June 2019. Subsequently, all shares of the company were transferred to shares of China Common (sold on 1 December 2023).

	Hang Seng FTSE China 50 Index ETF	
	2023 (HKD)	2022 (HKD)
Assets		
Level 1		
– Listed equities	83,790,853	97,613,971
Level 3		
– Unlisted equity	–	–
Total	83,790,853	97,613,971

There were no transfers of financial instruments between Level 1 and Level 2, or transfers into or out of Level 3 during the year.

The reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy is shown below.

	2023 (HKD)	2022 (HKD)
Fair value at the beginning of the year	–	–
Sales of investments	(1)	–
Realised losses from investments	(3,334,572)	–
Movement on unrealised losses	3,334,573	–
Fair value at the end of the year	–	–

Quantitative information of significant unobservable inputs – Level 3

The following table presents the information about significant unobservable inputs and valuation techniques used at 31 December 2022 in measuring the financial instruments categorised as Level 3 of the fair value hierarchy.

Fund	Currency	Description	Year	Fair value as of year end	Valuation techniques	Unobservable inputs
Hang Seng FTSE China 50 Index ETF	HKD	Equities	2022	–	Provision on the last traded price before suspension	Discount provision

Notes to the Financial Statements (continued)

14. Fair value information (continued)

Quantitative information of significant unobservable inputs – Level 3 (continued)

The following table presents the significant unobservable inputs used in the fair value measurement categorised with Level 3 of the fair value hierarchy together with a sensitivity analysis.

Fund	Currency	Description	Year	Unobservable inputs	Change in unobservable inputs	Effect on the net assets attributable to unitholders
Hang Seng FTSE China 50 Index ETF	HKD	Equities	2022	Discount provision	5% (5%)	97.750 –

15. Segment information

The Manager makes strategic resource allocation on behalf of the Fund and determines operating segments based on internal reports reviewed which are used to make strategic decisions.

The Manager considers that the Fund have one single operating segment based on one single, integrated investment strategy by investing in constituent stocks of the Indexes with the objective to match, before expenses, as closely as practicable, the performance of the Indexes as stipulated in the HKOD. There were no changes in the operating segment during the year.

Major revenues generated by the Fund are from listed equities. The segment information provided to the Manager is the same as that disclosed in the statement of comprehensive income and statement of assets and liabilities.

The Fund are domiciled in Hong Kong. Majority of the Fund's income from investments is from equities listed in Hong Kong. Please refer to note 5 for details.

16. Possible impact of amendments issued but not yet effective for the year ended 31 December 2023

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2023 and which have not been adopted in these financial statements.

Of these developments, the following may be relevant to the Fund's operations and financial statements:

	Effective for accounting periods beginning on or after
Amendments to HKAS 1, Presentation of financial statements: Classification of liabilities as current or non-current ("2020 amendments")	1 January 2024
Amendments to HKAS 21, The effects of changes in foreign exchange rates: Lack of exchangeability	1 January 2025

The Fund is in the process of making an assessment of what the impact of these amendments and interpretations is expected to be in the period of initial application. So far they have concluded that the adoption of them is unlikely to have a significant impact on the Fund's results of operations and financial position.

Performance of the Index and the ETF (Unaudited)

For the period from 1 January 2023 to 31 December 2023 and the comparison with the same period in 2022

Performance in HK Dollar

Fund/Index	For the period from 1 January 2023 to 31 December 2023	For the period from 1 January 2022 to 31 December 2022
Hang Seng FTSE China 50 Index ETF*	(13.94%)	(20.19%)
FTSE China 50 Index^	(12.62%)	(19.23%)

Source: NAV is provided by HSBC Institutional Trust Services (Asia) Limited. The performance information of the ETFs are provided by the Manager. Index information is provided by Bloomberg.

* Performance is calculated in base currency with NAV to NAV, dividend (if any) reinvested. The performance information presented is calculated based on the assumption that there were no distribution to Unitholders, and is for reference only.

To achieve comparability among fund's performance presentations in the market for investors, the Manager is to change the methodology used to calculate portfolio and composite returns with effective from 1 September 2022 onward. The change is the total return with dividend reinvested at ex-dividend date instead of payment date. Performance data published prior to 1 September 2022 is incomparable with the performance calculated by the new calculation methodology.

^ Performance is calculated in total return with dividend reinvested, net of withholding tax.

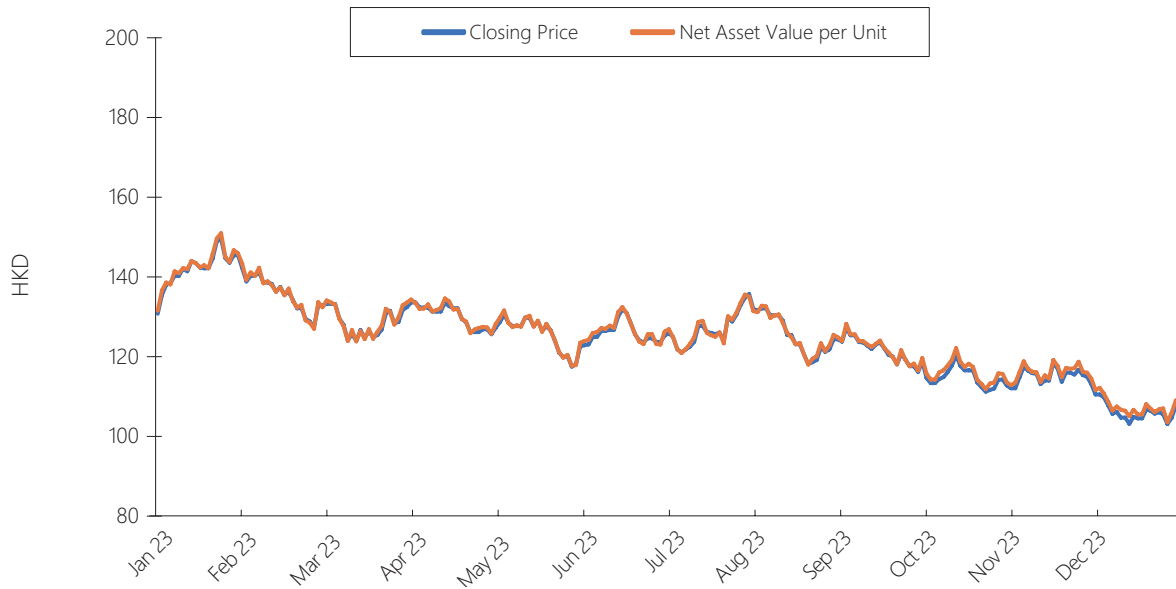
Investors should note that all investment involves risks (including the possibility of loss of the capital invested), prices of fund units may go up as well as down and past performance is not indicative of future performance. Investors should read the relevant fund's offering documents (including the full text of the risk factors stated therein) in detail before making any investment decision.

Comparison of Daily Closing Price and Net Asset Value per Unit of the ETF (Unaudited)

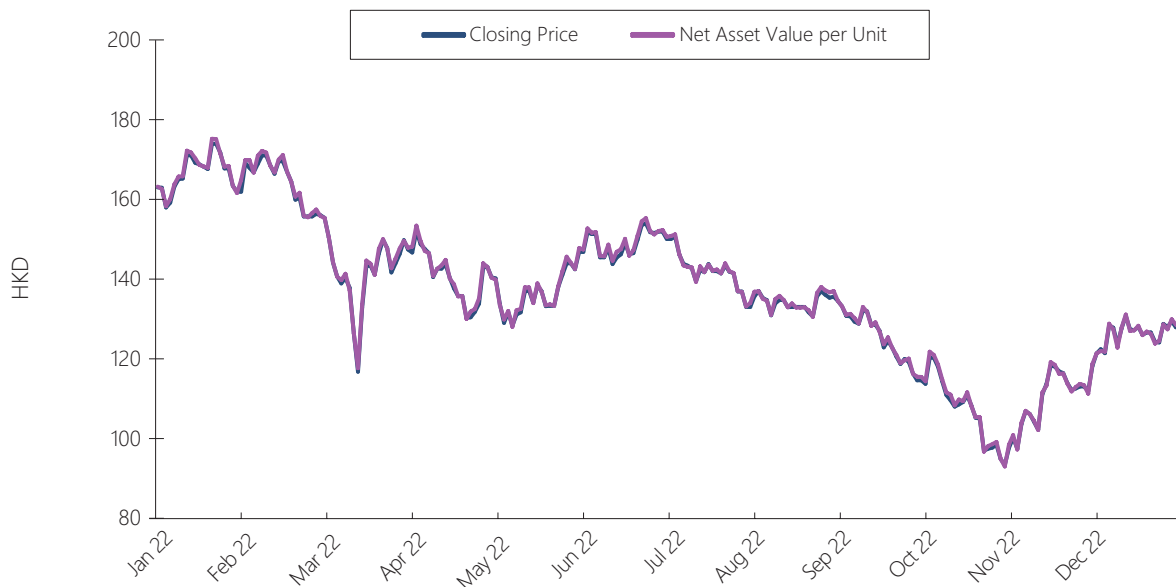
For the period from 1 January 2023 to 31 December 2023 and the comparison with the same period in 2022

Hang Seng FTSE China 50 Index ETF

Comparison of Daily Closing Price and Net Asset Value per Unit for the period from 1 January 2023 to 31 December 2023



Comparison of Daily Closing Price and Net Asset Value per Unit for the period from 1 January 2022 to 31 December 2022



Index Constituent Stocks Disclosure (Unaudited)

As at 31 December 2023

As at 31 December 2023

Fund	Index	Constituent Stocks	Weighting of the Index (%)
Hang Seng FTSE China 50 Index ETF	As of 31 December 2023, there was no constituent stock that accounted for more than 10% of the weighting of the FTSE China 50 Index.		

As at 31 December 2022

Fund	Index	Constituent Stocks	Weighting of the Index (%)
Hang Seng FTSE China 50 Index ETF	As of 31 December 2022, there was no constituent stock that accounted for more than 10% of the weighting of the FTSE China 50 Index.		

Report on Investment Overweight in Constituent Stocks of the Index by the ETF (Unaudited)

From 1 January 2023 to 31 December 2023

As stated in the Hong Kong Offering Document of the Fund, if a representative sampling strategy is implemented when investing for the Fund, the Manager (Hang Seng Investment Management Limited) will apply such strategy in accordance with the Fund's relevant investment restrictions thereby enabling the Manager to overweight the constituent stocks of the Index relative to their respective weightings in the Index in accordance with the below limits.

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

¹ Where the weighting of a constituent stock in the Index is below 10% and if the total allocation to this constituent stock is still below 10% after allocating the maximum extra weighting of 4%, the total allocation to it may be adjusted up to maximum of 10%.

During the period from 1 January 2023 to 31 December 2023, the Manager has complied in full to the above maximum extra weighting for the Hang Seng FTSE China 50 Index ETF.

Portfolio Carbon Footprint (Unaudited)

From 1 January 2023 to 31 December 2023

Please visit <https://www.hangsenginvestment.com/> for more details.

Management and Administration

Manager and Listing Agent

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Directors of the Manager

CHEUNG Ka Wai, Kathy
CHIU Wai Man, Vivien
LEE Pui Shan
LEE Wah Lun, Rannie
SAW Say Pin
SIT Wing Fai, Wilfred
TSANG Hing Keung (resigned on 1 June 2023)
WHITE Stuart Kingsley

Trustee, Custodian and Registrar

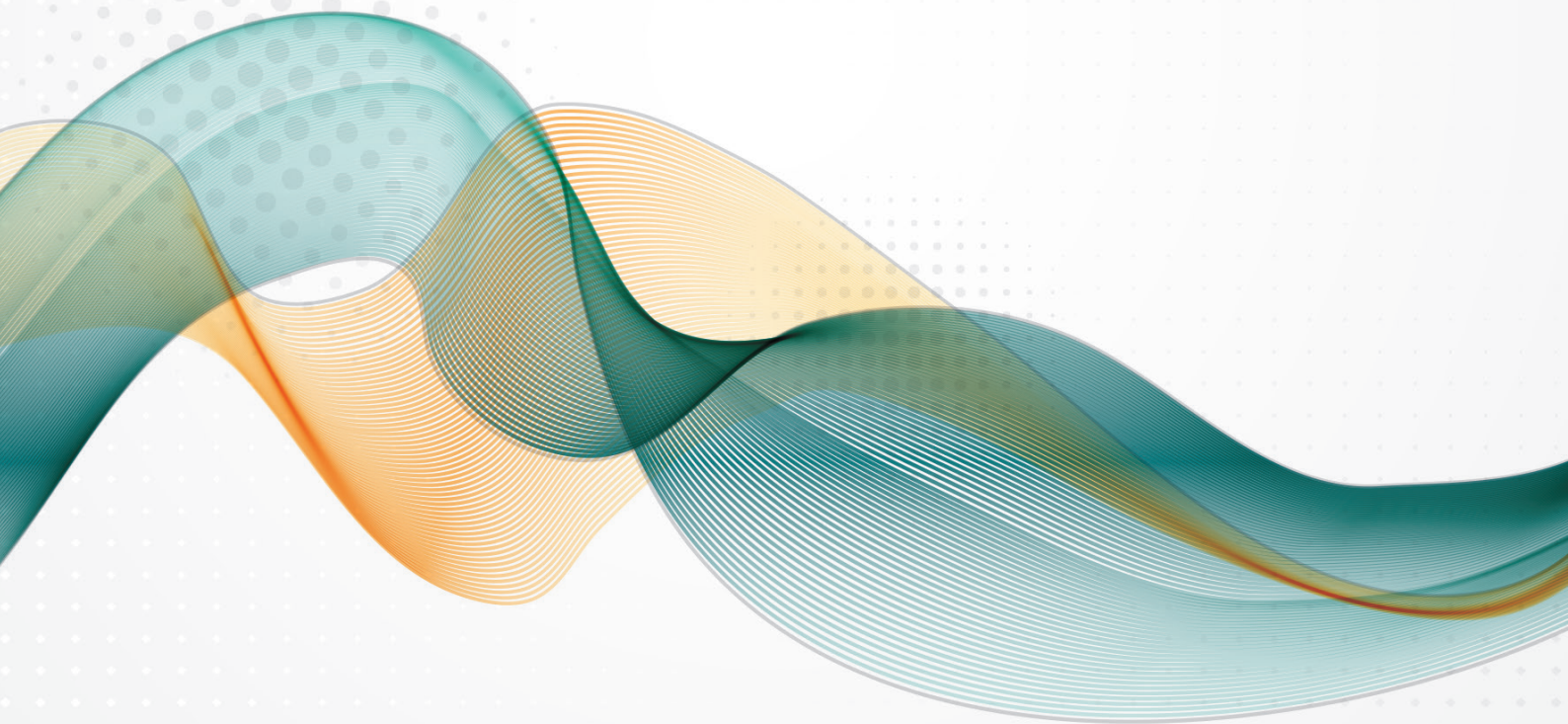
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