Principal Mandatory Provident Fund

Principal 信安

MPF Scheme Brochure For Principal MPF – Smart Plan

Sponsor:	Principal Insurance Company (Hong Kong) Limited
Trustee:	Principal Trust Company (Asia) Limited
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Exclusive Distributor

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Trustee

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Principal helps people and companies around the world build, protect and advance their financial well-being through retirement, insurance and asset management solutions that fit their lives. Our employees are passionate about helping clients of all income and portfolio sizes achieve their goals – offering innovative ideas, investment expertise and real-life solutions to make financial progress possible.

Principal is a provider of investment and retirement solutions in Hong Kong. We combine our capabilities in global investment management, retirement leadership and asset allocation expertise to provide retirement and asset management services as well as award-winning mutual funds and investment products to businesses, individuals and institutional investors.

Exclusive Distributor

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Founded in France in 1817 for more than a century, AXA is a world-leading organisation in insurance. We are proud to serve over one million customers in Hong Kong and Macau*. AXA Hong Kong is committed to continuously develop and enhance our life & savings, health, property & casualty and retirement solutions in order to satisfy the different needs of our individual and corporate customers. AXA is your encouraging partner who empowers you to achieve your goals and go further.

* *Including customers of AXA China Region Insurance Company Limited, AXA China Region Insurance Company (Bermuda) Limited (incorporated in Bermuda with limited liability), and AXA General Insurance Hong Kong Limited.*

Important: If you are in doubt about the meaning or effect of the contents of this MPF Scheme Brochure, you should seek independent professional advice.

Important to note:

1. You should consider your own risk tolerance level and financial circumstances before making any investment choices. When, in your selection of constituent funds, you are in doubt as to whether certain constituent fund is suitable for you (including whether it is consistent with your investment objectives), you should seek financial and/or professional advice and choose the constituent fund(s) most suitable for you taking into account your circumstances.

2. The Principal Guaranteed Fund invests solely in a single insurance policy based APIF, the Principal Guaranteed Fund Policy, issued by the Sponsor. The guarantee of the Principal Guaranteed Fund Policy is given by the Sponsor. Your investments (if any) in the Principal Guaranteed Fund are therefore subject to the credit risks of the Sponsor. The guarantee applies in specified circumstances only. Please refer to section 3.4.6 (*Principal Guaranteed Fund*) and Appendix 1 (*Insurance policy based APIF*) for details of the credit risk, guarantee features and guarantee conditions. The proceeds of realisation of units in the Principal Guaranteed Fund other than under the guarantee conditions are subject to a reduction by the Sponsor of a certain percentage of the member's account balance (or the relevant part of the account balance). The rate of reduction is determined by the Sponsor at its sole discretion and can be changed by the Sponsor at any time without prior notice. The current maximum rate of reduction is 5%. Subject to the approval of the MPFA, the maximum rate may be increased.

3. The Principal – MPF Conservative Fund does not guarantee the repayment of capital. Fees and charges of a MPF conservative fund can be deducted from either: (i) the assets of the constituent fund; or (ii) members' accounts by way of unit deduction. The Principal – MPF Conservative Fund uses method (i) and, therefore, unit prices/NAV/fund performance quoted have incorporated the impact of fees and charges.

4. Please be reminded that in the event that you do not make any investment choices or if you submit an investment mandate which is invalid in the circumstances set out in the relevant scheme enrolment form, your contributions made and/or accrued benefits transferred into the Plan will be invested into the DIS as stated in section 3.3 (*MPF default investment strategy (the "**DIS**")*).

5. You should consider your own risk tolerance level and financial circumstances before investing in the DIS. You should note that the DIS CFs may not be suitable for you, and there may be a risk mismatch between the DIS CFs and your risk profile (the resulting portfolio risk may be greater than your risk preference). You should seek financial and/or professional advice if you are in doubt as to whether the DIS is suitable for you, and make the investment decision most suitable for you taking into account your circumstances.

6. You should note that the implementation of the DIS may have an impact on your MPF investments and accrued benefits. You should consult with the Trustee if you have doubts on how you are being affected.

The Sponsor accepts responsibility for the information contained in this MPF Scheme Brochure as being accurate at the date of publication. However, neither the delivery of this MPF Scheme Brochure nor the offer or agreement to participate in the Plan shall under any circumstances constitute a representation that the information contained in this MPF Scheme Brochure is correct as of any time subsequent to such date. This MPF Scheme Brochure may from time to time be updated.

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1. INTRODUCTION

Principal MPF – Smart Plan (the "**Plan**"), a master trust scheme for which Principal Trust Company (Asia) Limited acts as the Trustee, is designed to facilitate ease of compliance by employers, employees and self-employed persons with the MPF Ordinance, the General Regulation, relevant codes and guidelines.

The Plan was established by the Trust Deed and is governed by the laws of Hong Kong. Any employer or self-employed person can easily join the Plan. They can then concentrate on what they do best with ease of mind – managing their own businesses.

The Plan has been authorised by the SFC and approved by the MPFA. SFC authorisation is not a recommendation or endorsement of an MPF scheme or pooled investment fund nor does it guarantee the commercial merits of an MPF scheme or pooled investment fund or its performance. It does not mean the MPF scheme or pooled investment fund is suitable for all scheme participants or fund holders nor is it an endorsement of its suitability for any particular scheme participant or fund holder.

2. DIRECTORY OF APPROVED TRUSTEE AND OTHER SERVICE PROVIDERS

Trustee	Principal Trust Company (Asia) Limited	30/F, Millennium City 6 392 Kwun Tong Road Kwun Tong, Kowloon Hong Kong
Custodian	Principal Trust Company (Asia) Limited	30/F, Millennium City 6 392 Kwun Tong Road Kwun Tong, Kowloon Hong Kong
Sponsor	Principal Insurance Company (Hong Kong) Limited	30/F, Millennium City 6 392 Kwun Tong Road Kwun Tong, Kowloon Hong Kong
Investment manager for all constituent funds (other than the Principal - Hang Seng Index Tracking Fund)	Principal Asset Management Company (Asia) Limited	30/F, Millennium City 6 392 Kwun Tong Road Kwun Tong, Kowloon Hong Kong
Investment manager for the Principal - Hang Seng Index Tracking Fund	State Street Global Advisors Asia Limited	68/F, Two International Finance Centre 8 Finance Street Central Hong Kong
Legal Adviser	Baker & McKenzie	14/F, One Taikoo Place 979 King's Road, Quarry Bay Hong Kong
Auditor	Ernst & Young	22/F, Citic Tower 1 Tim Mei Avenue Central Hong Kong

Founded in 1879, the Principal Financial Group® helps people and companies around the world build, protect and advance their financial well-being through retirement, insurance and asset management solutions that fit their lives. Our employees are passionate about helping clients of all income and portfolio sizes achieve their goals – offering innovative ideas, investment expertise and real-life solutions to make financial progress possible.

In Hong Kong, we are a provider of investment and retirement solutions. Our member companies, including Principal Trust Company (Asia) Limited, Principal Investment & Retirement Services Limited and Principal Asset Management Company (Asia) Limited, combine our capabilities in global investment management, retirement leadership and asset allocation expertise to provide retirement and asset management services as well as award-winning mutual funds and investment products to businesses, individuals and institutional investors. All the above companies are member companies of the Principal Financial Group® based in the United States.

2.1 Trustee and custodian

Principal Trust Company (Asia) Limited, the Trustee, was incorporated in Hong Kong in 1997 and has been managing retirement assets in Hong Kong since 2000. The Trustee provides one-stop shop services on retirement scheme management, including corporate trustee, fund and scheme administration services.

The Trustee has been registered as a trust company in Hong Kong and has been approved by the MPFA as an approved trustee for registered schemes. The Trustee also acts as the Administrator of the Plan.

The Trustee is responsible for a number of functions, including:

- safekeeping the assets of the Plan;
- keeping member records and establishing separate accounts for members in respect of their contributions;
- processing payment of contributions and accrued benefits;
- effecting investment of contributions in the constituent funds;
- processing transfers; and
- compliance with the MPF Ordinance, General Regulation, relevant codes and guidelines and the Trust Deed.

Under the Trust Deed, subject to the approval of the SFC and the MPFA, the Trustee (with the agreement of the Sponsor) may appoint investment managers to manage all or part of the assets of the Plan.

2.2 Sponsor

The Sponsor was incorporated in Hong Kong. It is an insurer authorised by the Insurance Authority to carry on retirement scheme management business in and from Hong Kong.

The Sponsor is responsible for promoting and sponsoring of the Plan and the engagement in ancillary activities such as business development and product design of the Plan. The Sponsor is also the issuer and guarantor of the Principal Guaranteed Fund Policy in which the Principal Guaranteed Fund invests.

2.3 Investment managers at the underlying fund level

Under the trust deeds of the relevant APIFs managed by PAM and subject to the requirements under the MPF Ordinance and the General Regulation, PAM may delegate all or any of its duties, powers and discretions to another corporation. Please refer to section 3.2 (*Table for constituent funds*) for the delegation arrangement.

3. FUND OPTIONS, INVESTMENT OBJECTIVES AND POLICIES

3.1 Plan structure

Constituent Funds		First level APIFs/ITCISs
Principal Growth Fund	→	Principal MPF Fund – Principal MPF Growth Fund
Principal Balanced Fund	→	Principal MPF Fund – Principal MPF Balanced Fund
Principal Stable Fund	→	Principal MPF Fund – Principal MPF Stable Fund
Principal Cash Fund	→	Principal MPF Fund – Principal MPF Cash Fund
Principal – MPF Conservative Fund	→	Principal MPF Fund – Principal MPF Conservative Fund
Principal Guaranteed Fund	→	Principal Guaranteed Fund Policy
Principal Dynamic Global Equity Fund	→	two or more unit trust APIFs and/or ITCISs
Principal Dynamic Asia Pacific Equity Fund	→	two or more unit trust APIFs and/or ITCISs
Principal Dynamic Global Bond Fund	→	two or more unit trust APIFs and/or ITCISs
Principal Dynamic Greater China Equity Fund	→	two or more unit trust APIFs and/or ITCISs
Principal Dynamic Asian Bond Fund	→	two or more unit trust APIFs and/or ITCISs
Principal Dynamic Hong Kong Equity Fund	→	two or more unit trust APIFs and/or ITCISs
Principal – Hang Seng Index Tracking Fund	→	Tracker Fund of Hong Kong
Principal Core Accumulation Fund	→	Principal Unit Trust Umbrella Fund – Principal Core Accumulation Fund
Principal Age 65 Plus Fund	→	Principal Unit Trust Umbrella Fund – Principal Age 65 Plus Fund

3.2 Table for constituent funds

The Plan provides flexibility in the choice of investment options. The Trustee may from time to time (with the agreement of the Sponsor) create additional constituent funds subject to obtaining any prior necessary consent from the SFC and the MPFA.

No.	Name of Constituent Funds	Investment managers CF level	Investment managers APIF/ITCIS level	Sub-investment manager/delegate of the investment managers	Fund Structure	Fund Descriptor	Investment Focus
1.	Principal Growth Fund		PAM	• Principal Global Investors, LLC[1] • Principal Global Investors (Hong Kong) Limited[2]	Feeder Fund^	Mixed Assets Fund – Global – maximum equity 100%	Around 75% to 100% in global equities and up to 25% in global bonds
2.	Principal Balanced Fund		PAM	• Principal Global Investors, LLC • Principal Global Investors (Hong Kong) Limited	Feeder Fund	Mixed Assets Fund – Global – maximum equity around 85%	Around 55% to 85% in global equities and around 10% to 40% In global bonds

[1] *The address of Principal Global Investors, LLC is at 801 Grand Avenue, Des Moines IA, 50392 USA.*

[2] *The address of Principal Global Investors (Hong Kong) Limited is at Unit 1001-1002, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.*

No.	Name of Constituent Funds	Investment managers: CF level	Investment managers: APIF/ITCIS level	Sub-investment manager/delegate of the investment managers	Fund Structure	Fund Descriptor	Investment Focus
3.	Principal Stable Fund	PAM		• Principal Global Investors, LLC • Principal Global Investors (Hong Kong) Limited	Feeder Fund	Mixed Assets Fund – Global – maximum equity around 45%	Around 15% to 45% in global equities and around 45% to 75% in global bonds
4.	Principal Cash Fund	PAM		• Principal Global Investors, LLC • Principal Global Investors (Hong Kong) Limited	Feeder Fund	Money Market Fund – Hong Kong	Transferable securities and cash or cash equivalent
5.	Principal – MPF Conservative Fund	PAM		• Principal Global Investors, LLC • Principal Global Investors (Hong Kong) Limited	Feeder Fund	Money Market Fund – Hong Kong	HKD denominated deposits and debt securities
6.	Principal Guaranteed Fund	PAM		• Principal Global Investors, LLC • Principal Global Investors (Hong Kong) Limited	Feeder Fund	Guaranteed Fund	Around 60% to 90% in bonds, 10% to 25% in equities and up to 25% in deposits
7.	Principal Dynamic Global Equity Fund	PAM	Multi-managers*	Nil	Portfolio Management Fund^^	Equity Fund – Global	Around 98% in equities and around 2% in cash or cash equivalent
8.	Principal Dynamic Asia Pacific Equity Fund	PAM	Multi-managers*	Nil	Portfolio Management Fund	Equity Fund – Asia Pacific	Around 95% in equities and around 5% in cash or cash equivalent
9.	Principal Dynamic Global Bond Fund	PAM	Multi-managers*	Nil	Portfolio Management Fund	Bond Fund – Global	At least 70% in fixed income securities issued by governments, governmental agencies and corporates, and 0% to 30% in others#
10.	Principal Dynamic Greater China Equity Fund	PAM	Multi-managers*	Nil	Portfolio Management Fund	Equity Fund – Greater China	70% to 100% in Greater China equities, 0% to 30% in other equities and 0% to 30% in bonds
11.	Principal Dynamic Asian Bond Fund	PAM	Multi-managers*	Nil	Portfolio Management Fund	Bond Fund – Asia Pacific	70% to 100% in bonds in Asia Pacific region (excluding Japan) and 0% to 30% in bonds outside the Asia Pacific region (excluding Japan)

No.	Name of Constituent Funds	Investment managers CF level	APIF/ITCIS level	Sub-investment manager/delegate of the investment managers	Fund Structure	Fund Descriptor	Investment Focus
12.	Principal Dynamic Hong Kong Equity Fund	PAM	Multi-managers*	Nil	Portfolio Management Fund	Equity Fund – Hong Kong	Normally 95% in Hong Kong equities with the remainder held in cash or short-term deposits
13.	Principal – Hang Seng Index Tracking Fund	State Street Global Advisors Asia Limited		Nil	Feeder Fund	Equity Fund – Hong Kong	Up to 100% in equities
14.	Principal Core Accumulation Fund	PAM		• Principal Global Investors, LLC *Note: Principal Global Investors (Hong Kong) Limited acts as sub-delegate*	Feeder Fund	Mixed Assets Fund – Global – Equity around 60%	Around 60% in higher risk assets and around 40% in lower risk assets
15.	Principal Age 65 Plus Fund	PAM		• Principal Global Investors, LLC *Note: Principal Global Investors (Hong Kong) Limited acts as sub-delegate*	Feeder Fund	Mixed Assets Fund – Global – Equity around 20%	Around 20% in higher risk assets and around 80% in lower risk assets

^ *"Feeder Fund" means a fund investing solely in units of a single APIF/ITCIS.*

^^ *"Portfolio Management Fund" means a fund investing in units of two or more APIFs/ITCISs.*

* *The identities of multi-managers may change as a result of any changes to the underlying APIFs and/or ITCISs as PAM may from time to time determine.*

For details of "others" investment of the Principal Dynamic Global Bond Fund, please refer to section 3.4.9(b) (Balance of investments).

All constituent funds are currently denominated in HKD.

For a constituent fund that is a portfolio management fund, it may invest in APIFs and/or ITCISs managed by the investment manager of the constituent fund or any affiliate(s) of the investment manager. The investment manager of the constituent fund, in deciding which APIFs and/or ITCISs the constituent fund may invest, will exercise its professional and independent judgment, taking into account members' interests.

3.3 MPF default investment strategy (the "DIS")

The DIS is a ready-made investment arrangement mainly designed for those members who are not interested or do not wish to make an investment choice, and is also available as an investment choice itself for members who find it suitable for their own circumstances. For those members who do not make an investment choice, their contributions and accrued benefits transferred from another registered scheme will be invested in accordance with the DIS. The DIS is required by law to be offered in every registered scheme and is designed to be substantially similar in all registered schemes.

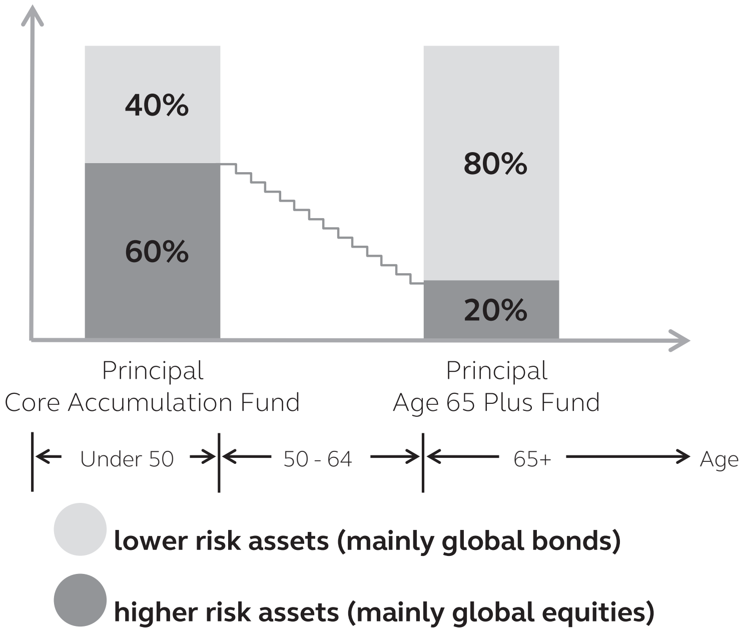
3.3.1 Asset allocation of the DIS

The DIS aims to balance the long term effects of risk and return through investing in the DIS CFs, namely the Principal Core Accumulation Fund and the Principal Age 65 Plus Fund, according to the pre-set allocation percentages at different ages. The Principal Core Accumulation Fund will invest around 60% in higher risk assets and 40% in lower risk assets of its NAV whereas the Principal Age 65 Plus Fund will invest around 20% in higher risk assets and 80% in lower risk assets. Both DIS CFs adopt globally diversified investment principles and use different classes of assets, including global equities, fixed income, money market and cash, and other types of assets allowed under the MPF legislation.

3.3.2 De-risking of the DIS

Accrued benefits invested through the DIS will be invested in a way that adjusts risk depending on a member's age. The DIS will manage investment risk exposure by automatically reducing the exposure to higher risk assets and correspondingly increasing the exposure to lower risk assets as the member gets older. Such de-risking is to be achieved by way of reducing the holding in the Principal Core Accumulation Fund and increasing the holding in the Principal Age 65 Plus Fund throughout the prescribed time span as detailed below. Diagram 1 below shows the target proportion of investment in riskier assets over time. The asset allocation stays the same up until 50 years of age, then reduces steadily until age 64, after which it stays steady again.

Diagram 1: Asset allocation between constituent funds in the DIS



Note: The exact proportion of the portfolio in higher risk assets/lower risk assets at any point in time may deviate from the target glide path due to market fluctuations.

The above de-risking is to be achieved by annual adjustments of asset allocation gradually from the Principal Core Accumulation Fund to the Principal Age 65 Plus Fund under the DIS. Save for the circumstances set out in this section 3.3.2 (*De-risking of the DIS*), switching of the existing accrued benefits between the DIS CFs will be automatically carried out each year on a member's birthday and according to the allocation percentages in the DIS de-risking table as shown in Diagram 2 below. If:

(a) the member's birthday is not on a business day, then the investments will be moved on the next available business day, or

(b) the member's birthday falls on 29 February and in the year which is not a leap year, then the investments will be moved on 1 March or the next available business day.

If there is any exceptional circumstance, e.g. market closure or suspension of dealing, on the member's birthday which makes it impossible for the investments to be moved on that day, the investments will be moved on the next available business day when there is no such exceptional circumstance.

If the relevant member notifies the Trustee of his updated birthday, then the Trustee will as soon as practicable adjust the allocation between the DIS CFs according to his updated birthday, and effect the de-risking in the future years according to the DIS de-risking table in Diagram 2 below and his updated birthday.

If the Trustee receives one or more of the specified instructions, including but not limited to subscription (e.g. contribution or fund transfer-in), redemption (e.g. fund transfer-out or withdrawals) or switching instructions on or before the date on which the annual de-risking is to take place and such specified instruction(s) are being processed on the date on which the annual de-risking is to take place, while the annual de-risking will only take place after completion of these instructions, the annual de-risking will be completed on the original de-risking date. In particular, members should refer to the "cut-off time" and the "required time to complete" as set out in the "Trustee Service Comparative Platform" in the MPFA's website (collectively, the "required timeframe") before submitting a valid switching instruction or change of investment mandate instruction in order to ensure that the instruction can be processed on or prior to the de-risking date. Any valid switching instruction or change of investment mandate instruction received by the Trustee before the annual de-risking but not meeting the required timeframe may only be completed after the annual de-risking.

For further details on when the various types of instructions will be processed, please contact the Trustee's customer service hotline at 2802 2812/2885 8011 or visit the Trustee's website at www.principal.com.hk.

The smallest amount of units of the Principal Age 65 Plus Fund and/or the Principal Core Accumulation Fund that can be issued in the annual de-risking under the DIS shall be a fraction of not less than one-ten thousandth.

Members should be aware that the above de-risking will not apply where the member chooses the DIS CFs as individual fund choices (rather than as part of the DIS).

In summary, under the DIS:

(a) when a member is below the age of 50, all existing accrued benefits and all contributions and accrued benefits transferred from another registered scheme will be invested in the Principal Core Accumulation Fund;

(b) when a member is between the ages of 50 and 64, all existing accrued benefits and all contributions and accrued benefits transferred from another registered scheme will be invested according to the allocation percentages between the DIS CFs as shown in the DIS de-risking table below. The de-risking on the existing accrued benefits will be automatically carried out as described above;

(c) when a member reaches the age of 64, all existing accrued benefits and all contributions and accrued benefits transferred from another registered scheme will be invested in the Principal Age 65 Plus Fund;

(d) if the member has reached 60 years of age before 1 April 2017, unless the member has given a Specific Investment Instruction, the member's accrued benefits (including future contributions and accrued benefits transferred from another registered scheme) will be invested in the same manner as at 31 March 2017;

(e) the de-risking of a member will discontinue when the Trustee has received sufficient proof of the death of the member. If de-risking has already been taken place between the death of the member and the time at which the Trustee received sufficient proof of the death of the member, such de-risking will not be undone, although no further de-risking will take place in respect of the deceased member.

If the Trustee does not have the full date of birth of the relevant member:

(a) if only the year and month of birth is available, the annual de-risking will use the last calendar day of the birth month, or if it is not a business day, the next available business day.

(b) if only the year of birth is available, the annual de-risking will use the last calendar day of the year, or if it is not a business day, the next available business day.

(c) if no information at all on the date of birth, the member's accrued benefits will be fully invested in the Principal Age 65 Plus Fund with no de-risking applied.

Diagram 2: DIS de-risking table

Age	Principal Core Accumulation Fund	Principal Age 65 Plus Fund
Below 50	100.0%	0.0%
50	93.3%	6.7%
51	86.7%	13.3%
52	80.0%	20.0%
53	73.3%	26.7%
54	66.7%	33.3%
55	60.0%	40.0%
56	53.3%	46.7%
57	46.7%	53.3%
58	40.0%	60.0%
59	33.3%	66.7%
60	26.7%	73.3%
61	20.0%	80.0%
62	13.3%	86.7%
63	6.7%	93.3%
64 and above	0.0%	100.0%

Note: The above allocation between the DIS CFs is made at the point of annual de-risking and the proportion of the DIS CFs in the DIS portfolio may vary during the year due to market fluctuations.

The Trustee will, to the extent practicable, issue a notice to the relevant member at least 60 days prior to his 50th birthday informing him of the commencement of the de-risking process. Also, a confirmation statement will be sent to the relevant member no later than five business days after the de-risking process has been completed.

3.3.3 Information on performance of DIS CFs

The fund performance (including the definition and actual figures of the fund expense ratio) of the DIS CFs will be published in the fund fact sheets (and one of which will be attached to annual benefit statement) while their respective Reference Portfolios can be found on www.principal.com.hk. Members can visit www.principal.com.hk or call the customer service hotline for information. Members may also obtain the fund performance information at the website of the MPFA (www.mpfa.org.hk).

The Reference Portfolios are adopted to provide common reference points for performance and asset allocation of the DIS CFs. The fund performance will be reported against the Reference Portfolios published by the Hong Kong Investment Funds Association. Please visit www.hkifa.org.hk for further information regarding the performance of the Reference Portfolios.

The fund performance is calculated in HKD on NAV-to-NAV basis. Past performance is not indicative of future performance. There is no assurance that investment returns and members' accrued benefits may not suffer significant loss. Members should regularly review the performance of the constituent funds and consider whether the investments still suit their personal needs and circumstances.

3.4 Statements of investment policies

Each constituent fund has a separate and distinct investment objective and policy. Subject to the MPF Ordinance, General Regulation, relevant codes and guidelines, the Trustee may change the investment objective and policy of a constituent fund by giving three months' notice (or such longer or shorter notice period as agreed with the SFC and the MPFA) to members and employers of the Plan.

3.4.1 Principal Growth Fund

(a) Objective

The Principal Growth Fund aims to achieve significant long-term capital growth with the appropriate mix of global equities, global bonds and cash.

(b) Balance of investments

The Principal Growth Fund pursues its investment objective by investing in a unit trust APIF, the Principal MPF Fund – Principal MPF Growth Fund. The Principal Growth Fund, via the APIF, gains exposure to a diversified portfolio of equities, bonds and deposits, with heavier weighting in equities. Normally around 75% to 100% of the assets will be invested in global equities and up to 25% in global bonds. The remaining assets will be invested in deposits as appropriate.

(c) Security lending and repurchase agreements

The Principal Growth Fund will not enter into any security lending or repurchase agreements.

(d) Futures and options

The Principal Growth Fund will not enter into any financial futures contracts or options contracts.

(e) Risks

The Principal Growth Fund, due to its very high exposure to equities, has a high risk profile in terms of fluctuations in the value of the assets of the Principal Growth Fund. Therefore, the return on the Principal Growth Fund may fluctuate significantly, particularly in the short term. In the long term, however, the return is expected to be in line with the Principal Growth Fund's investment objective.

Investments in the Principal Growth Fund are subject to market fluctuations and investment risks. Members should, in particular, be aware of the following risks, details of which are in section 4 (*Risks*):

- Political, economic and social risk
- Interest rate risk
- Market risk
- Accounting standards and disclosure
- Foreign exchange risk
- Security risk
- Credit risk
- Counterparty risk
- Investment grade bond risk
- Liquidity risk
- Risks associated with small-capitalisation/mid-capitalisation companies
- Risks associated with high volatility of the equity market in certain countries and regions
- Risks associated with regulatory or exchanges requirements of the equity market in certain countries and regions
- Sovereign debt risks
- Valuation risks
- Credit rating risk
- Eurozone risks
- Custodial risk
- Hedging risk
- Risks relating to investing solely in a single APIF or ITCIS
- Risks of investing in collective investment schemes
- Risks associated with investments in PRC securities
- Risk of investing in CIBM and/or Bond Connect

3.4.2 Principal Balanced Fund

(a) Objective

The Principal Balanced Fund aims to achieve long-term capital growth with the appropriate mix of global equities, global bonds and cash.

(b) Balance of investments

The Principal Balanced Fund pursues its investment objective by investing in a unit trust APIF, the Principal MPF Fund – Principal MPF Balanced Fund. The Principal Balanced Fund, via the APIF, gains exposure to a diversified portfolio of equities, bonds and deposits. Normally around 55% to 85% of the assets will be invested in global equities and around 10% to 40% in global bonds. The remaining assets will be invested in deposits as appropriate.

(c) Security lending and repurchase agreements

The Principal Balanced Fund will not enter into any security lending or repurchase agreements.

(d) Futures and options

The Principal Balanced Fund will not enter into any financial futures contracts or options contracts.

(e) Risks

The Principal Balanced Fund, due to its high exposure to equities, has a medium to high risk profile in terms of fluctuation in the value of the assets of the Principal Balanced Fund. Therefore, the return on the Principal Balanced Fund may fluctuate significantly, particularly in the short term. In the long term, however, the return is expected to be in line with the Principal Balanced Fund's investment objective.

Investments in the Principal Balanced Fund are subject to market fluctuations and investment risks. Members should, in particular, be aware of the following risks, details of which are in section 4 (*Risks*):

- Political, economic and social risk
- Interest rate risk
- Market risk
- Accounting standards and disclosure
- Foreign exchange risk
- Security risk
- Credit risk
- Counterparty risk
- Investment grade bond risk
- Liquidity risk
- Risks associated with small-capitalisation/mid-capitalisation companies
- Risks associated with high volatility of the equity market in certain countries and regions
- Risks associated with regulatory or exchanges requirements of the equity market in certain countries and regions
- Sovereign debt risks
- Valuation risks
- Credit rating risk
- Eurozone risks
- Custodial risk
- Hedging risk
- Risks relating to investing solely in a single APIF or ITCIS
- Risks of investing in collective investment schemes
- Risks associated with investments in PRC securities
- Risk of investing in CIBM and/or Bond Connect

3.4.3 Principal Stable Fund

(a) Objective

The Principal Stable Fund aims to achieve stable long-term capital growth with the appropriate mix of global equities, global bonds and cash.

(b) Balance of investments

The Principal Stable Fund pursues its investment objective by investing in a unit trust APIF, the Principal MPF Fund – Principal MPF Stable Fund. The Principal Stable Fund, via the APIF, gains exposure to a diversified portfolio of equities, bonds and deposits. Normally around 15% to 45% of the assets will be invested in global equities and around 45% to 75% in global bonds. The remaining assets will be invested in deposits as appropriate.

(c) Security lending and repurchase agreements

The Principal Stable Fund will not enter into any security lending or repurchase agreements.

(d) Futures and options

The Principal Stable Fund will not enter into any financial futures contracts or options contracts.

(e) Risks

The Principal Stable Fund has a medium risk profile in terms of fluctuations in the value of the assets of the Principal Stable Fund. However, the return on the Principal Stable Fund may still fluctuate significantly, particularly in the short term. In the long term, however, the return is expected to be in line with the Principal Stable Fund's investment objective.

Investments in the Principal Stable Fund are subject to market fluctuations and investment risks. Members should, in particular, be aware of the following risks, details of which are in section 4 (*Risks*):

- Political, economic and social risk
- Interest rate risk
- Market risk
- Accounting standards and disclosure
- Foreign exchange risk
- Security risk
- Credit risk
- Counterparty risk
- Investment grade bond risk
- Liquidity risk
- Risks associated with small-capitalisation/mid-capitalisation companies
- Risks associated with high volatility of the equity market in certain countries and regions
- Risks associated with regulatory or exchanges requirements of the equity market in certain countries and regions
- Sovereign debt risks
- Valuation risks
- Credit rating risk
- Eurozone risks
- Custodial risk
- Hedging risk
- Risks relating to investing solely in a single APIF or ITCIS
- Risks of investing in collective investment schemes
- Risks associated with investments in PRC securities
- Risk of investing in CIBM and/or Bond Connect

3.4.4 Principal Cash Fund

(a) Objective

The Principal Cash Fund aims to provide a return higher than retail HKD savings deposit rate in Hong Kong.

(b) Balance of investments

The Principal Cash Fund pursues its investment objective by investing in a unit trust APIF, the Principal MPF Fund – Principal MPF Cash Fund. The Principal Cash Fund, via the APIF, invests in a wide range of transferable securities including certificates of deposit, floating rate notes and commercial papers, with a diversified spread of high quality financial institutions, sovereign issuers and corporate issuers.

(c) Security lending and repurchase agreements

The Principal Cash Fund will not enter into any security lending or repurchase agreements.

(d) Futures and options

The Principal Cash Fund will not enter into any financial futures contracts or options contracts.

(e) Risks

The Principal Cash Fund has a low risk profile. The return on the Principal Cash Fund is expected to be in line with its investment objective with minimal short-term fluctuations.

Investments in the Principal Cash Fund are subject to market fluctuations and investment risks. Members should, in particular, be aware of the following risks, details of which are in section 4 (*Risks*):

- Political, economic and social risk
- Interest rate risk
- Market risk
- Accounting standards and disclosure
- Foreign exchange risk
- Security risk
- Credit risk
- Counterparty risk
- Investment grade bond risk
- Liquidity risk
- Sovereign debt risks
- Valuation risks
- Credit rating risk
- Eurozone risks
- Custodial risk
- Hedging risk
- Risks relating to investing solely in a single APIF or ITCIS
- Risks of investing in collective investment schemes
- Risk of investing in CIBM and/or Bond Connect
- Risk relating solely to investment in the Principal – MPF Conservative Fund and the Principal Cash Fund

3.4.5 Principal – MPF Conservative Fund

(a) Objective

The Principal – MPF Conservative Fund aims to achieve a return in line with the prescribed savings rate (i.e. broadly the average rate of interest on a HKD savings account) published by the MPFA.

(b) Balance of investments

The Principal – MPF Conservative Fund pursues its investment objective by investing in a unit trust APIF, the Principal MPF Fund – Principal MPF Conservative Fund. The Principal – MPF Conservative Fund, via the APIF, may invest in HKD denominated deposits and debt securities issued by financial institutions, sovereign issuers and corporate issuers, subject to restrictions applicable to MPF conservative funds imposed by the MPF Ordinance, General Regulation, relevant codes and guidelines.

(c) Security lending and repurchase agreements

The Principal – MPF Conservative Fund will not enter into any security lending or repurchase agreements.

(d) Futures and options

The Principal – MPF Conservative Fund will not enter into any financial futures contracts or options contracts.

(e) Risks

The Principal – MPF Conservative Fund is not a guaranteed fund and does not provide any capital or income guarantee. The Principal – MPF Conservative Fund is a conservative and low-risk investment product and is expected to achieve its investment objective in most months. However, future fluctuations in interest rates and hence the value of the assets of the Principal – MPF Conservative Fund together with the possibility of defaults by institutions and issuers mean that in some months the return will inevitably fall below the prescribed savings rate.

Investments in the Principal – MPF Conservative Fund are subject to market fluctuations and investment risks. Members should, in particular, be aware of the following risks, details of which are in section 4 (*Risks*):

- Political, economic and social risk
- Interest rate risk
- Market risk
- Accounting standards and disclosure
- Security risk
- Credit risk
- Counterparty risk
- Investment grade bond risk
- Liquidity risk
- Sovereign debt risks
- Valuation risks
- Credit rating risk
- Custodial risk
- Risks relating to investing solely in a single APIF or ITCIS
- Risks of investing in collective investment schemes
- Risk relating solely to investment in the Principal – MPF Conservative Fund and the Principal Cash Fund

3.4.6 Principal Guaranteed Fund

(a) Objective

The Principal Guaranteed Fund aims to achieve a return in excess of the prescribed savings rate (i.e. broadly the average rate of interest on a HKD savings account) published by the MPFA.

(b) Balance of investments

The Principal Guaranteed Fund, through an insurance policy based APIF, the Principal Guaranteed Fund Policy, invests in a unit trust APIF, the Principal MPF Fund – Principal MPF Capital Stable Fund. The unit trust APIF will invest through other unit trust APIFs to gain exposure to a diversified portfolio of bonds, equities and deposits, with heavier weighting in bonds. Normally around 60% to 90% of the assets will be invested in bonds, 10% to 25% in equities and up to 25% in deposits.

(c) Guarantee features

The insurance policy based APIF in which the Principal Guaranteed Fund invests offers a guarantee given by the Sponsor on amounts invested in the insurance policy based APIF (net of contribution charges and offer spread, if any). For details on the features of the guarantee and its operation, please refer to Appendix 1 (*Insurance policy based APIF*).

(d) Security lending and repurchase agreements

The Principal Guaranteed Fund will not enter into any security lending or repurchase agreements.

(e) Futures and options

The Principal Guaranteed Fund will not enter into any financial futures contracts or options contracts.

(f) Risks

The Principal Guaranteed Fund has a low risk profile in terms of fluctuations in the value of the assets of the Principal Guaranteed Fund. However, the return on the Principal Guaranteed Fund may still fluctuate significantly, particularly in the short term. In the long term, however, the return is expected to be in line with the Principal Guaranteed Fund's investment objective.

Investments in the insurance policy based APIF are held as assets of the Sponsor. Where the Sponsor is liquidated, investors may not have access to their investments temporarily, or their value may be reduced.

Before you invest in the Principal Guaranteed Fund, you should consider the risk posed by the Sponsor (referred to as credit risk) under the circumstances set out above and, if necessary, seek additional information or advice.

Investments in the Principal Guaranteed Fund are subject to market fluctuations and investment risks. Members should, in particular, be aware of the following risks, details of which are in section 4 (*Risks*):

- Political, economic and social risk
- Interest rate risk
- Market risk
- Accounting standards and disclosure
- Foreign exchange risk
- Security risk
- Credit risk
- Counterparty risk
- Investment grade bond risk
- Liquidity risk
- Risks associated with small-capitalisation/mid-capitalisation companies
- Risks associated with high volatility of the equity market in certain countries and regions
- Risks associated with regulatory or exchanges requirements of the equity market in certain countries and regions
- Sovereign debt risks
- Valuation risks
- Credit rating risk
- Eurozone risks
- Custodial risk
- Hedging risk
- Risks relating to investing solely in a single APIF or ITCIS
- Risk relating solely to investment in the Principal Guaranteed Fund
- Risks of investing in collective investment schemes
- Risks relating to investments in PRC securities
- Risk of investing in CIBM and/or Bond Connect

3.4.7 Principal Dynamic Global Equity Fund

(a) Objective

The Principal Dynamic Global Equity Fund aims to focus investment into the global equity markets to produce returns that are related to those achieved on the major world stock market indices. The Principal Dynamic Global Equity Fund aims to have the flexibility to have limited investment into bonds and to manage the volatility of returns in the short term.

(b) Balance of investments

The Principal Dynamic Global Equity Fund will invest in two or more APIFs and/or ITCISs managed by different managers, which in turn, invest in a diversified portfolio of global equities and have the flexibility to invest in fixed income securities and money market in a limited manner. Normally, around 98% of the assets will be invested in equities and around 2% in cash or cash equivalent. The actual portfolio will at times vary considerably from the above as market, political, structural, economic and other conditions change.

(c) Security lending and repurchase agreements

The Principal Dynamic Global Equity Fund will not enter into any security lending or repurchase agreements. The APIFs and ITCISs may enter into security lending and repurchase agreements to the extent permitted by the General Regulation.

(d) Futures and options

The Principal Dynamic Global Equity Fund will not enter into any financial futures contracts or options contracts. The APIFs and ITCISs may enter into financial futures contracts and options contracts for hedging purposes.

(e) Risks

The Principal Dynamic Global Equity Fund, due to its very high exposure to equities, has a high risk profile in terms of fluctuations in the value of the assets of the Principal Dynamic Global Equity Fund. Therefore, the return on the Principal Dynamic Global Equity Fund may fluctuate significantly, particularly in the short term. In the long term, however, the return is expected to be in line with the Principal Dynamic Global Equity Fund's investment objective.

Investments in the Principal Dynamic Global Equity Fund are subject to market fluctuations and investment risks. Members should, in particular, be aware of the following risks, details of which are in section 4 (*Risks*):

- Political, economic and social risk
- Market risk
- Accounting standards and disclosure
- Foreign exchange risk
- Security risk
- Liquidity risk
- Risks associated with small-capitalisation/mid-capitalisation companies
- Risks associated with high volatility of the equity market in certain countries and regions
- Risks associated with regulatory or exchanges requirements of the equity market in certain countries and regions
- Valuation risks
- Eurozone risks
- Custodial risk
- Hedging risk
- Risks of investing in collective investment schemes
- Fund of funds risk
- Risks relating to investments in PRC securities

3.4.8 Principal Dynamic Asia Pacific Equity Fund

(a) Objective

The Principal Dynamic Asia Pacific Equity Fund aims to focus investment into the Asia Pacific equity markets to produce returns that are related to those achieved on the major stock market indices of Asia Pacific. The Principal Dynamic Asia Pacific Equity Fund aims to have the flexibility to invest in bonds in a limited manner and to manage the volatility of returns in the short term.

(b) Balance of investments

The Principal Dynamic Asia Pacific Equity Fund will invest in two or more APIFs and/or ITCISs managed by different managers, which in turn, invest directly into the Asia Pacific equity markets and have the flexibility to invest in the money market in a limited manner. Normally, around 95% of the assets will be invested in equities and around 5% in cash or cash equivalent. The actual portfolio will at times vary considerably from the above as market, political, structural, economic and other conditions change.

(c) Security lending and repurchase agreements

The Principal Dynamic Asia Pacific Equity Fund will not enter into any security lending or repurchase agreements. The APIFs and ITCISs may enter into security lending and repurchase agreements to the extent permitted by the General Regulation.

(d) Futures and options

The Principal Dynamic Asia Pacific Equity Fund will not enter into any financial futures contracts or options contracts. The APIFs and ITCISs may enter into financial futures contracts and options contracts for hedging purposes.

(e) Risks

The Principal Dynamic Asia Pacific Equity Fund, due to its high exposure to equities, has a high risk profile in terms of fluctuations in the value of the assets of the Principal Dynamic Asia Pacific Equity Fund. Therefore, the return on the Principal Dynamic Asia Pacific Equity Fund may fluctuate significantly, particularly in the short term. In the long term, however, the return is expected to be in line with the Principal Dynamic Asia Pacific Equity Fund’s investment objective.

Investments in the Principal Dynamic Asia Pacific Equity Fund are subject to market fluctuations and investment risks. Members should, in particular, be aware of the following risks, details of which are in section 4 (*Risks*):

- Political, economic and social risk
- Market risk
- Accounting standards and disclosure
- Foreign exchange risk
- Security risk
- Liquidity risk
- Risks associated with small-capitalisation/mid-capitalisation companies
- Risks associated with high volatility of the equity market in certain countries and regions
- Risks associated with regulatory or exchanges requirements of the equity market in certain countries and regions
- Valuation risks
- Custodial risk
- Hedging risk
- Fund of funds risk
- Risks of investing in collective investment schemes
- Risks relating to investments in PRC securities

3.4.9 Principal Dynamic Global Bond Fund

(a) Objective

The Principal Dynamic Global Bond Fund aims to seek total investment return over the medium to longer term by investing in global bonds.

(b) Balance of investments

The Principal Dynamic Global Bond Fund will invest in two or more APIFs and/or ITCISs managed by different managers so that at least 70% of the assets of the Principal Dynamic Global Bond Fund are invested in fixed income securities issued by governments, governmental agencies and corporates globally. Investment assets include debt obligations (bonds), preferred stocks, corporate debt obligations and convertible securities.

(c) Security lending and repurchase agreements

The Principal Dynamic Global Bond Fund will not enter into any security lending or repurchase agreements. The APIFs and ITCISs may enter into security lending and repurchase agreements to the extent permitted by the General Regulation.

(d) Futures and options

The Principal Dynamic Global Bond Fund will not enter into any financial futures contracts or options contracts. The APIFs and ITCISs may enter into financial futures contracts and options contracts for hedging purposes.

(e) Risks

The Principal Dynamic Global Bond Fund, due to its exposure to bonds, has a low to medium risk profile in terms of fluctuations in the value of the assets of the Principal Dynamic Global Bond Fund. However, the return on the Principal Dynamic Global Bond Fund may fluctuate significantly, particularly in the short term. In the long term, however, the return is expected to be in line with the Principal Dynamic Global Bond Fund's investment objective.

Investments in the Principal Dynamic Global Bond Fund are subject to market fluctuations and investment risks. Members should, in particular, be aware of the following risks, details of which are in section 4 (*Risks*):

- Political, economic and social risk
- Interest rate risk
- Market risk
- Accounting standards and disclosure
- Foreign exchange risk
- Security risk
- Credit risk
- Counterparty risk
- Investment grade bond risk
- Liquidity risk
- Sovereign debt risks
- Valuation risks
- Credit rating risk
- Eurozone risks
- Custodial risk
- Hedging risk
- Fund of funds risk
- Risks of investing in collective investment schemes
- Risk of investing in CIBM and/or Bond Connect

3.4.10 Principal Dynamic Greater China Equity Fund

(a) Objective

The Principal Dynamic Greater China Equity Fund aims to achieve long term capital growth in HKD terms through a portfolio consisting primarily of securities of companies based or operating principally in Greater China and the majority of these companies are listed on a stock exchange in Hong Kong or Taiwan.

(b) Balance of investments

The Principal Dynamic Greater China Equity Fund will invest in two or more APIFs and/or ITCISs managed by different managers, which in turn, follow the proposed asset allocation of 70-100% assets in Greater China equities, 0-30% assets in other equities and 0-30% assets in bonds*.

* *For cash management purpose only.*

(c) Security lending and repurchase agreements

The Principal Dynamic Greater China Equity Fund will not enter into any security lending or repurchase agreements. The APIFs and ITCISs may enter into security lending and repurchase agreements to the extent permitted by the General Regulation.

(d) Futures and options

The Principal Dynamic Greater China Equity Fund will not enter into any financial futures contracts or options contracts. The APIFs and ITCISs may enter into financial futures contracts and options contracts for hedging purposes.

(e) Risks

The Principal Dynamic Greater China Equity Fund, due to its very high exposure to equities, has a high risk profile in terms of fluctuations in the value of the assets of the Principal Dynamic Greater China Equity Fund. Therefore, the return on the Principal Dynamic Greater China Equity Fund may fluctuate significantly, particularly in the short term. In the long term, however, the return is expected to be in line with the Principal Dynamic Greater China Equity Fund's investment objective.

Investments in the Principal Dynamic Greater China Equity Fund are subject to market fluctuations and investment risks. Members should, in particular, be aware of the following risks, details of which are in section 4 (*Risks*):

- Political, economic and social risk
- Interest rate risk
- Market risk
- Accounting standards and disclosure
- Foreign exchange risk
- Security risk
- Credit risk
- Counterparty risk
- Investment grade bond risk
- Liquidity risk
- Risks associated with small-capitalisation/mid-capitalisation companies
- Risks associated with high volatility of the equity market in certain countries and regions
- Risks associated with regulatory or exchanges requirements of the equity market in certain countries and regions
- Sovereign debt risks
- Valuation risks
- Credit rating risk
- Custodial risk
- Risks relating to investing in an APIF or an ITCIS that invests in a single market
- Fund of funds risk
- Risks of investing in collective investment schemes
- Risks relating to investments in PRC securities
- Risk of investing in CIBM and/or Bond Connect

3.4.11 Principal Dynamic Asian Bond Fund

(a) Objective

The Principal Dynamic Asian Bond Fund aims to achieve long term capital growth in HKD terms through a portfolio consisting primarily of bonds within the Asia Pacific region (excluding Japan), including but not limited to Australia, Hong Kong, Korea, Malaysia, New Zealand, Singapore and Thailand.

(b) Balance of investments

The Principal Dynamic Asian Bond Fund will invest in two or more APIFs and/or ITCISs managed by different managers, which in turn, follow the proposed asset allocation of 70% to 100% assets in bonds within the Asia Pacific region (excluding Japan), including but not limited to Australia, Hong Kong, Korea, Malaysia, New Zealand, Singapore and Thailand and 0% to 30% assets in bonds outside the Asia Pacific region (excluding Japan) including but not limited to USD denominated bonds such as US treasury inflation-protected securities and treasury bonds for defensive purpose during periods of perceived uncertainty and volatility in Asian bond market.

(c) Security lending and repurchase agreements

The Principal Dynamic Asian Bond Fund will not enter into any security lending or repurchase agreements. The APIFs and ITCISs may enter into security lending and repurchase agreements to the extent permitted by the General Regulation.

(d) Futures and options

The Principal Dynamic Asian Bond Fund will not enter into any financial futures contracts or options contracts. The APIFs and ITCISs may enter into financial futures contracts and options contracts for hedging purposes.

(e) Risks

The Principal Dynamic Asian Bond Fund, due to its exposure to bonds, has a low to medium risk profile in terms of fluctuations in the value of the assets of the Principal Dynamic Asian Bond Fund. However, the return on the Principal Dynamic Asian Bond Fund may fluctuate significantly, particularly in the short term. In the long term, however, the return is expected to be in line with the Principal Dynamic Asian Bond Fund's investment objective.

Investments in the Principal Dynamic Asian Bond Fund are subject to market fluctuations and investment risks. Members should, in particular, be aware of the following risks, details of which are in section 4 (*Risks*):

- Political, economic and social risk
- Interest rate risk
- Market risk
- Accounting standards and disclosure
- Foreign exchange risk
- Security risk
- Credit risk
- Counterparty risk
- Investment grade bond risk
- Liquidity risk
- Sovereign debt risks
- Valuation risks
- Credit rating risk
- Custodial risk
- Hedging risk
- Fund of funds risk
- Risks of investing in collective investment schemes
- Risk of investing in CIBM and/or Bond Connect

3.4.12 Principal Dynamic Hong Kong Equity Fund

(a) Objective

The Principal Dynamic Hong Kong Equity Fund aims to achieve long term capital growth by investing primarily in Hong Kong equities, including PRC securities listed in Hong Kong.

(b) Balance of investments

The Principal Dynamic Hong Kong Equity Fund pursues its investment objective by investing in two or more APIFs and/or ITCISs, which in turn, invest in a diversified portfolio of Hong Kong equities. Such APIFs and ITCISs may or may not be managed by PAM and/or its affiliates. Normally 95% of the assets of the Principal Dynamic Hong Kong Equity Fund will be invested in Hong Kong equities, while the remaining will be held in cash or short-term deposits. Any holding of cash or short-term deposits is to provide liquidity and/or for any other purpose as PAM considers appropriate.

(c) Security lending and repurchase agreements

The Principal Dynamic Hong Kong Equity Fund will not enter into any security lending or repurchase agreements. The APIFs and ITCISs may enter into security lending and repurchase agreements to the extent permitted by the General Regulation.

(d) Futures and options

The Principal Dynamic Hong Kong Equity Fund will not enter into any financial futures contracts or options contracts. The APIFs and ITCISs may enter into financial futures contracts and options contracts for hedging purposes.

(e) Risks

The Principal Dynamic Hong Kong Equity Fund, due to its very high exposure to equities, has a high risk profile in terms of fluctuations in the value of the assets of the Principal Dynamic Hong Kong Equity Fund. Therefore, the return on the Principal Dynamic Hong Kong Equity Fund may fluctuate significantly, particularly in the short term. In the long term, however, the return is expected to be in line with the Principal Dynamic Hong Kong Equity Fund's investment objective.

Investments in the Principal Dynamic Hong Kong Equity Fund are subject to market fluctuations and investment risks. Members should, in particular, be aware of the following risks, details of which are in section 4 (*Risks*):

- Political, economic and social risk
- Market risk
- Accounting standards and disclosure
- Foreign exchange risk
- Security risk
- Liquidity risk
- Risks associated with small-capitalisation/ mid-capitalisation companies
- Risks associated with high volatility of the equity market in certain countries and regions
- Risks associated with regulatory or exchanges requirements of the equity market in certain countries and regions
- Valuation risks
- Custodial risk
- Risks relating to investing in an APIF or an ITCIS that invests in a single market
- Fund of funds risk
- Risks of investing in collective investment schemes
- Risks relating to investments in PRC securities

3.4.13 Principal – Hang Seng Index Tracking Fund

(a) Objective

The Principal – Hang Seng Index Tracking Fund aims to provide investment results that closely correspond to the performance of the Hang Seng Index.

(b) Balance of investments

The Principal – Hang Seng Index Tracking Fund pursues its investment objective by investing solely in a single ITCIS, the TraHK. The Principal – Hang Seng Index Tracking Fund, via the TraHK, invests all, or substantially all, of its assets in the Index Shares in substantially the same weightings as they appear in the Hang Seng Index.

The Principal – Hang Seng Index Tracking Fund will, through the TraHK, maintain an effective currency exposure to HKD of not less than 30% of the NAV of the Principal – Hang Seng Index Tracking Fund. The Principal – Hang Seng Index Tracking Fund may hold cash or bank deposits for ancillary purposes, such as for meeting redemption request.

Tracking of the Hang Seng Index by the TraHK

The investment manager of the TraHK reviews the shares held in the TraHK's portfolio on each business day, checking those shares against the Index Shares and comparing the weighting of each Index Share in the TraHK's portfolio to the weighting of the corresponding constituent share in the Hang Seng Index.

Members should be aware that whilst the Principal – Hang Seng Index Tracking Fund, through its investment in the TraHK, aims to achieve a return which follows the trend of the Hang Seng Index, there is no guarantee/assurance that the performance of the Principal – Hang Seng Index Tracking Fund and the TraHK will at any time be identical to that of the Hang Seng Index.

In the event that there is any deviation between the TraHK's portfolio and the composition and weighting of the Hang Seng Index thereby giving rise to a tracking error which is considered by the investment manager of the Principal – Hang Seng Index Tracking Fund to be significant taking into account the investment objective, the investment manager of the Principal – Hang Seng Index Tracking Fund will effect adjustments of the TraHK's portfolio which it considers appropriate as soon as it is reasonably practicable, after considering transaction costs and the impact, if any, on the market. However, it will not always be efficient to replicate or attempt to replicate identically the share composition of the Hang Seng Index if, for example, transaction costs incurred by the TraHK in performing any necessary adjustments would outweigh the anticipated reduction in tracking error that would result from failure to reflect minor changes in the Hang Seng Index. Therefore, minor mis-weightings are likely to occur. Further, the investment manager of the Principal – Hang Seng Index Tracking Fund may be restricted from effecting certain adjustments or may be required to perform certain adjustments by applicable laws and regulations.

Hang Seng Index

The Hang Seng Index is a widely quoted indicator for the performance of the Hong Kong stock market. It is composed of constituent companies listed on the Main Board of the Stock Exchange, and the shares of which generally have high market value and liquidity in the Hong Kong stock market. The Hang Seng Index is compiled by adopting free float-adjusted market capitalization weighted methodology. Details of the Hang Seng Index methodology can be found in the website of Hang Seng Indexes Company Limited (www.hsi.com.hk). The latest index information and other important news of the Hang Seng Index can also be obtained from that website.

Constituent stocks of the Hang Seng Index are selected by a process of detailed analysis. Mainland enterprises that have an H-share listing in Hong Kong are eligible for inclusion in the Hang Seng Index if they meet certain conditions. The Hang Seng Index is reviewed quarterly. The composition of the Hang Seng Index may change if one of the constituent stocks was changed or if any of the constituent companies were to delist its shares or if a new company were to list its shares on the Stock Exchange and be added to the Hang Seng Index.

The Hang Seng Index currently comprises 50 constituent stocks which are representative of the Hong Kong stock market. The aggregate market value of these stock accounts for about 46.67% of the total market capitalization of all stocks listed on the Main Board of the Stock Exchange. As at 28 February 2020, the respective weightings of the top 10 largest constituent stocks of the Hang Seng Index are:

Code	Company Name	Weighting (%)
700	Tencent Holdings Ltd.	11.78
1299	AIA Group Ltd.	9.83
5	HSBC Holdings plc	9.26
939	China Construction Bank Corporation	7.89
2318	Ping An Insurance (Group) Co. of China, Ltd.	5.60
1398	Industrial and Commercial Bank of China Ltd.	4.55
941	China Mobile Ltd.	4.36
388	Hong Kong Exchanges and Clearing Ltd.	3.55
3988	Bank of China Ltd.	2.83
883	CNOOC Limited	2.21

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THE PRINCIPAL – HANG SENG INDEX TRACKING FUND AS A RESULT OF ANY OF THE AFORESAID, AND NO CLAIMS, ACTIONS OR LEGAL PROCEEDINGS MAY BE BROUGHT AGAINST HANG SENG INDEXES COMPANY LIMITED AND/OR HANG SENG DATA SERVICES LIMITED in connection with the Principal – Hang Seng Index Tracking Fund in any manner whatsoever by any broker, holder or other person dealing with the Principal – Hang Seng Index Tracking Fund. Any broker, holder or other person dealing with the Principal – Hang Seng Index Tracking Fund does so therefore in full knowledge of this disclaimer and can place no reliance whatsoever on Hang Seng Indexes Company Limited and Hang Seng Data Services Limited. For the avoidance of doubt, this disclaimer does not create any contractual or quasi-contractual relationship between any broker, holder or other person and Hang Seng Indexes Company Limited and/or Hang Seng Data Services Limited and must not be construed to have created such relationship.

Members, by investing in the Principal – Hang Seng Index Tracking Fund, will be regarded as having acknowledged, understood and accepted the disclaimer of Hang Seng Indexes Company Limited and Hang Seng Data Services Limited referred to above and will be bound by it. The level of the Hang Seng Index at any time for the purposes of the Principal – Hang Seng Index Tracking Fund will be the level as calculated by Hang Seng Indexes Company Limited in its sole discretion.

Hang Seng Indexes Company Limited is the compiler and publisher of the Hang Seng Index. The investment manager of the TraHK, State Street Global Advisors Asia Limited, and the Trustee, are independent of Hang Seng Indexes Company Limited and Hang Seng Data Services Limited.

(c) Security lending and repurchase agreements

Neither the Principal – Hang Seng Index Tracking Fund nor the TraHK will enter into any security lending or repurchase agreements.

(d) Futures and options

The Principal – Hang Seng Index Tracking Fund will not enter into any financial futures contracts or options contracts.

The TraHK is permitted to enter into financial futures contracts and options contract for hedging purposes or to achieve the investment objective. The value of the TraHK's investments in options contracts (in terms of the total amount of premium paid) and the value of the TraHK's investments in financial futures contracts (in terms of the total net aggregate value of outstanding contract prices payable by or to the TraHK) will not in the aggregate exceed 10% of the TraHK's NAV. The TraHK may only enter into financial futures contracts which are traded on the Hong Kong Futures Exchange Limited.

(e) Risks

The Principal – Hang Seng Index Tracking Fund, due to its very high exposure to equities, has a high risk profile in terms of fluctuations in the value of the assets of the Principal – Hang Seng Index Tracking Fund. Therefore, the return on the Principal – Hang Seng Index Tracking Fund may fluctuate significantly, particularly in the short term.

The performance of the TraHK, NAV of the TraHK, the performance by the investment manager and the trustee of the TraHK of their respective obligations are not guaranteed by the Hong Kong Government. The Hong Kong Government has given no guarantee or assurance that the investment objective of the TraHK will be met.

Investments in the Principal – Hang Seng Index Tracking Fund are subject to market fluctuations and investment risks. Members should, in particular, be aware of the following risks, details of which are in section 4 (*Risks*):

- Political, economic and social risk
- Market risk
- Accounting standards and disclosure
- Security risk
- Liquidity risk
- Risks associated with high volatility of the equity market in certain countries and regions
- Risks associated with regulatory or exchanges requirements of the equity market in certain countries and regions
- Valuation risks
- Custodial risk
- Risks relating to investing solely in a single APIF or ITCIS
- Risks relating to investing in an APIF or an ITCIS that invests in a single market
- Risks of investing in collective investment schemes
- Risks relating to investments in PRC securities
- Risk relating solely to investing in the Principal – Hang Seng Index Tracking Fund

3.4.14 Principal Core Accumulation Fund

(a) Objective

The investment objective of the Principal Core Accumulation Fund is to provide capital growth to members by investing in a globally diversified manner.

(b) Balance of investments

In order to achieve the investment objective, the Principal Core Accumulation Fund will invest in a unit trust APIF, the Principal Unit Trust Umbrella Fund – Principal Core Accumulation Fund, which in turn invests in two or more passively or actively managed APIFs and/or ITCISs as allowed under the General Regulation. PAM, the investment manager of the Principal Unit Trust Umbrella Fund – Principal Core Accumulation Fund has the discretion, subject to the limits set out in the following paragraph, to determine the allocation percentages of the investments of the Principal Unit Trust Umbrella Fund – Principal Core Accumulation Fund into passively or actively managed APIFs and/or ITCISs. Please refer to the following product structure chart illustrating the fund structure of the Principal Core Accumulation Fund:

Constituent fund		APIF		APIFs/ITCISs
Principal Core Accumulation Fund	→	Principal Unit Trust Umbrella Fund – Principal Core Accumulation Fund	→	Principal Life Style Fund – Principal International Equity Fund
			→	Principal Life Style Fund – Principal International Bond Fund
			→	Principal Life Style Fund – Principal Hong Kong Dollar Savings Fund
			→	Other APIF(s) and/or ITCIS(s)

The Principal Core Accumulation Fund targets to hold 60% of its underlying assets in higher risk assets, with the remainder investing in lower risk assets. The asset allocation of higher risk assets may vary between 55% and 65% due to differing price movements of various equity and bond markets. There is no prescribed allocation for investments in any specific countries or currencies. While the Principal Unit Trust Umbrella Fund – Principal Core Accumulation Fund may invest into actively and/or passively managed APIFs and/or ITCISs, the Principal Core Accumulation Fund and the Principal Unit Trust Umbrella Fund – Principal Core Accumulation Fund will be managed to a target of 60% higher risk assets and 40% lower risk assets, with strict adherence to the ranges above. With this strategy, PAM, the investment manager of the Principal Unit Trust Umbrella Fund – Principal Core Accumulation Fund may allocate the assets among the APIFs and/or ITCISs in such proportions at its discretion in the interest of the unitholders of the Principal Unit Trust Umbrella Fund – Principal Core Accumulation Fund.

Effective currency exposure to HKD

The Principal Core Accumulation Fund will maintain an effective currency exposure to HKD of not less than 30% through currency hedging operations at the Principal Unit Trust Umbrella Fund – Principal Core Accumulation Fund level.

(c) Security lending and repurchase agreements

Neither the Principal Core Accumulation Fund nor the Principal Unit Trust Umbrella Fund – Principal Core Accumulation Fund will enter into any security lending or repurchase agreements.

(d) Futures and options

Neither the Principal Core Accumulation Fund nor the Principal Unit Trust Umbrella Fund – Principal Core Accumulation Fund will enter into any financial futures contracts or options contracts.

(e) Risks

The Principal Core Accumulation Fund, due to its relatively high exposure to equities, has a medium to high risk profile. PAM, the investment manager of the Principal Unit Trust Umbrella Fund – Principal Core Accumulation Fund, determines the risk profile of the Principal Core Accumulation Fund, which is for your reference only. The risk profile is based on relative exposure to equities/bonds (including an assessment of historical performance/volatility of return) and will be reviewed annually. Therefore, the return on the Principal Core Accumulation Fund may fluctuate, particularly in the short term. In the long term, however, the return is expected to be in line with the Principal Core Accumulation Fund's investment objective, and the Principal Core Accumulation Fund is expected to perform in line with the Reference Portfolio.

Investments in the Principal Core Accumulation Fund are subject to market fluctuations and investment risks. Members should, in particular, be aware of the following risks, details of which are in section 4 (*Risks*):

- Political, economic and social risk
- Interest rate risk
- Market risk
- Accounting standards and disclosure
- Foreign exchange risk
- Security risk
- Credit risk
- Counterparty risk
- Investment grade bond risk
- Liquidity risk
- Risks associated with small-capitalisation/mid-capitalisation companies
- Risks associated with high volatility of the equity market in certain countries and regions
- Risks associated with regulatory or exchanges requirements of the equity market in certain countries and regions
- Sovereign debt risks
- Valuation risks
- Credit rating risk
- Eurozone risks
- Custodial risk
- Hedging risk
- Risks relating to investing solely in a single APIF or ITCIS
- Risks of investing in collective investment schemes
- Risks associated with investments in PRC securities
- Risk of investing in CIBM and/or Bond Connect
- Principal risks of investing in the DIS

3.4.15 Principal Age 65 Plus Fund

(a) Objective

The investment objective of the Principal Age 65 Plus Fund is to provide stable growth for the retirement savings to members by investing in a globally diversified manner.

(b) Balance of investments

In order to achieve the investment objective, the Principal Age 65 Plus Fund will invest in a unit trust APIF, the Principal Unit Trust Umbrella Fund – Principal Age 65 Plus Fund, which in turn invests in two or more passively or actively managed APIFs and/or ITCISs as allowed under the General Regulation. PAM, the investment manager of the Principal Unit Trust Umbrella Fund – Principal Age 65 Plus Fund has the discretion, subject to the limits set out in the following paragraph, to determine the allocation percentages of the investments of the Principal Unit Trust Umbrella Fund – Principal Age 65 Plus Fund into passively or actively managed APIFs and/or ITCISs. Please refer to the following product structure chart illustrating the fund structure of the Principal Age 65 Plus Fund:

Constituent fund		APIF		APIFs/ITCISs
Principal Age 65 Plus Fund	→	Principal Unit Trust Umbrella Fund – Principal Age 65 Plus Fund	→	Principal Life Style Fund – Principal International Equity Fund
			→	Principal Life Style Fund – Principal International Bond Fund
			→	Principal Life Style Fund – Principal Hong Kong Dollar Savings Fund
			→	Other APIF(s) and/or ITCIS(s)

The Principal Age 65 Plus Fund targets to hold 20% of its underlying assets in higher risk assets, with the remainder investing in lower risk assets. The asset allocation to higher risk assets may vary between 15% and 25% due to differing price movements of various equity and bond markets. There is no prescribed allocation for investments in any specific countries or currencies. While the Principal Unit Trust Umbrella Fund – Principal Age 65 Plus Fund may invest into actively and/or passively managed APIFs and/or ITCISs, the Principal Age 65 Plus Fund and the Principal Unit Trust Umbrella Fund – Principal Age 65 Plus Fund will be managed to a target of 20% higher risk assets and 80% lower risk assets, with strict adherence to the ranges above. With this strategy, PAM, the investment manager of the Principal Unit Trust Umbrella Fund – Principal Age 65 Plus Fund may allocate the assets among the APIFs and/or ITCISs in such proportions at its discretion in the interest of the unitholders of the Principal Unit Trust Umbrella Fund – Principal Age 65 Plus Fund.

Effective currency exposure to HKD:

The Principal Age 65 Plus Fund will maintain an effective currency exposure to HKD of not less than 30% through currency hedging operations at the Principal Unit Trust Umbrella Fund – Principal Age 65 Plus Fund level.

(c) Security lending and repurchase agreements

Neither the Principal Age 65 Plus Fund nor the Principal Unit Trust Umbrella Fund – Principal Age 65 Plus Fund will enter into any security lending or repurchase agreements.

(d) Futures and options

Neither the Principal Age 65 Plus Fund nor the Principal Unit Trust Umbrella Fund – Principal Age 65 Plus Fund will enter into any financial futures contracts or options contracts.

(e) Risks

The Principal Age 65 Plus Fund, due to its investments being mainly in lower risk assets, has a low to medium risk profile. PAM, the investment manager of the Principal Unit Trust Umbrella Fund – Principal Age 65 Plus Fund, determines the risk profile of the Principal Age 65 Plus Fund, which is for your reference only. The risk profile is based on relative exposure to equities/bonds (including an assessment of historical performance/volatility of return) and will be reviewed annually. The return of the Principal Age 65 Plus Fund is expected to be in line with the Principal Age 65 Plus Fund's investment objective, and the Principal Age 65 Plus Fund is expected to perform in line with the Reference Portfolio.

Investments in the Principal Age 65 Plus Fund are subject to market fluctuations and investment risks. Members should, in particular, be aware of the following risks, details of which are in section 4 (*Risks*):

- Political, economic and social risk
- Interest rate risk
- Market risk
- Accounting standards and disclosure
- Foreign exchange risk
- Security risk
- Credit risk
- Counterparty risk
- Investment grade bond risk
- Liquidity risk
- Risks associated with small-capitalisation/mid-capitalisation companies
- Risks associated with high volatility of the equity market in certain countries and regions
- Risks associated with regulatory or exchanges requirements of the equity market in certain countries and regions
- Sovereign debt risks
- Valuation risks
- Credit rating risk
- Eurozone risks
- Custodial risk
- Hedging risk
- Risks relating to investing solely in a single APIF or ITCIS
- Risks of investing in collective investment schemes
- Risks relating to investments in PRC securities
- Risk of investing in CIBM and/or Bond Connect
- Principal risks of investing in the DIS

3.5 Asset allocations

There is no fixed asset allocation by geographical locations for the constituent funds. The above expected asset allocations of the constituent funds are for indication only and may be changed as appropriate. In order to achieve the investment objectives, the actual asset allocations may at any time vary significantly from the expected asset allocations described above. The Trustee shall not incur any liability for not exercising or utilising its wide powers of investment other than in the manner indicated above. In particular, the Trustee shall not incur any liability if higher returns could have been achieved for any constituent fund if different investments within the stated investment policy had been made.

3.6 Borrowing restrictions

The Trustee may borrow for the account of a constituent fund for liquidity purposes to meet benefit payments and for other purposes and to the extent permitted under the MPF Ordinance, General Regulation, relevant codes and guidelines. The assets of the relevant constituent fund may be charged or pledged as security for any such borrowings as permitted under the MPF Ordinance, General Regulation, relevant codes and guidelines.

3.7 Investment restrictions

The constituent funds will be subject to the applicable investment restrictions under the MPF Ordinance, General Regulation, relevant codes and guidelines.

The Trustee is not immediately required to sell investments if any of the investment restrictions are exceeded as a result of changes in the value of a constituent fund’s investments, or the constituent fund receiving, taking up or participating in any rights, bonuses or benefits, or reconstructions, conversions, exchanges or amalgamations or payments out of the assets of the constituent fund or realisations of units but for so long as such limits are exceeded, the Trustee will not acquire any further investments subject to the relevant restrictions and will take all reasonable steps to restore the position so that the limits are no longer exceeded.

3.8 Establishment and termination of constituent funds

Subject to the MPF Ordinance, General Regulation, relevant codes and guidelines, the Trustee may with the agreement of the Sponsor (and shall at the request of the Sponsor) establish new constituent funds.

Subject to the MPF Ordinance, General Regulation, relevant codes and guidelines, the Trustee may with the agreement of the Sponsor (and shall at the request of the Sponsor) terminate a constituent fund on giving not less than three months' notice (or such shorter notice period as agreed with the SFC and the MPFA) to employers and members of the Plan. On receipt of such notice, the relevant members shall be entitled to instruct the Trustee to switch amounts invested in the constituent fund to be terminated (the "**terminated constituent fund**") and to invest future contributions and other amounts paid by or on behalf of the relevant members into other constituent fund(s) chosen by the relevant members. If the relevant members fail to make a choice when entitled to do so, the members' units in the terminated constituent fund will be switched into the default fund designated by the Trustee with the agreement of the Sponsor from time to time (currently the Principal – MPF Conservative Fund) and future contributions and other amounts paid to the Plan by or on behalf of the relevant members which would otherwise be invested in the terminated constituent fund will be invested in the default fund.

Subject to the MPF Ordinance, General Regulation, relevant codes and guidelines, a constituent fund which is a feeder fund shall terminate on the termination of the APIF/ITCIS in which the constituent fund invests.

3.9 The underlying APIFs and ITCISs

Subject to the MPF Ordinance, General Regulation, relevant codes and guidelines, the terms of each APIF and ITCIS may be amended by their trustees or the sponsors (as the case may be) by giving the requisite notice to the Trustee in which event the Trustee will give one month's notice (or such shorter or longer notice period as agreed with the SFC and the MPFA) to employers and members of the Plan. Amendments may be made for any purpose decided by their trustees or sponsors, including for the purpose of varying or imposing new charges or fees in respect of the relevant APIF or ITCIS.

Subject to the MPF Ordinance, General Regulation, relevant codes and guidelines, an APIF or an ITCIS may also be terminated by giving the requisite notice to the Trustee in which event the Trustee will give one month's notice (or such shorter or longer notice period as agreed with the SFC and the MPFA) to employers and members of the Plan and all units will be realised in accordance with the terms of the APIF or the ITCIS.

The Trustee may, subject to the MPF Ordinance, General Regulation, relevant code and guidelines, add or replace any APIFs/ITCISs of a constituent fund in which event the Trustee will give one month's notice (or such shorter or longer notice period as agreed with the SFC and the MPFA) to employers and members of the Plan.

4. RISKS

Investors should note that the risk and return profile for each constituent fund represents the Sponsor's expectations based on past experience. The risk profiles will be reviewed and updated on a regular basis, taking into account the prevailing market circumstances. However, there is no guarantee that such return will be achieved. In addition, the return of a constituent fund over the short term may be greater than or less than its return over the long term due to market fluctuations and other factors. The risk profile for each constituent fund is for reference only. Investors should not rely on the risk profiles in making investment decisions.

Each constituent fund is subject to market fluctuations and to risks inherent in all investments. The prices of units of any constituent fund and the income from them may go down as well as up.

Information about the latest risk class of each constituent fund is available in the latest fund fact sheet of the Plan and the following website: www.principal.com.hk.

The performance of the investments in each constituent fund will be affected by a number of risk factors, including the following:

4.1 Political, economic and social risks

Changes in political, economic and social conditions in any country in which the investments are made could adversely affect the value of investments.

4.2 Interest rate risk

As investments may be made in securities whose value is driven significantly by changes in interest rates, the investments are subject to interest rate risk. When interest rates rise, the value of previously issued debt securities will normally fall because new debt securities issued will pay a higher rate of interest. In contrast, if interest rates fall, then the value of the previously issued debt securities will normally rise.

4.3 Market risk

Market risk includes such factors as changes in economic environment, consumption pattern and investors' expectation etc. which may have a significant impact on the value of the investments. Where investments are made in emerging markets, such investments may be subject to risks which are more common or significant than in more developed markets. Usually, emerging markets tend to be more volatile than developed markets and may experience substantial price volatility. There may also be an increased risk in government intervention in emerging markets which may affect market conditions. The legal infrastructure and accounting, auditing and reporting standards in emerging markets may also not provide the same degree of protection and/or information to investors as would generally apply in more developed markets.

4.4 Accounting standards and disclosure

Investments may be made in emerging markets. The accounting, auditing and financial reporting standards in some of these markets are normally less stringent than international requirements. Investment decisions may be required to be made on less complete information than is customarily available.

4.5 Foreign exchange risk

Investments (including, where applicable, any APIF/ITCIS of a constituent fund) may be made in currencies other than HKD which may be subject to exchange rate fluctuations with a consequential reduction in the HKD value of investments. Repatriation of capital invested may be hampered by changes in regulations applicable to foreign investors which may have an adverse impact on the performance of the investments.

4.6 Security risk

Each company has its unique factors affecting the value of its securities. These factors include the company's management capability, capital structure, liquidity position, product composition and others.

4.7 Credit risk

If the issuer of any of the fixed interest securities in which the underlying assets are invested defaults, the performance of the investments will be adversely affected.

4.8 Counterparty risk

Investments in deposits, bonds and other financial instruments which involve a counterparty are subject to the credit risk or default risk of the counterparty. The investments of a constituent fund will also be exposed to counterparty risk on parties with whom they trade and when placing cash on deposits.

4.9 Investment grade bond risk

Investments may be made in investment grade bonds. Investment grade bonds are assigned ratings within the top rating categories by rating agencies on the basis of the creditworthiness or risk of default of a bond issue. Rating agencies review, from time to time, such ratings and bonds may therefore be downgraded in rating if economic circumstances impact the relevant bond issues. Downgrading of the bonds may adversely affect the valuation of the relevant bonds and the relevant investments.

4.10 Liquidity risk

As investments may be made in instruments where the volume of transactions fluctuate significantly depending on market sentiment, there is a risk that investments may become less liquid in response to market developments or adverse investor perceptions. Consequently, the investments may have to be sold at a lower price or they may not be able to be sold at all. An inability to sell the investments can adversely affect the value of the APIF/ITCIS, which in turn affects the value of the constituent fund.

4.11 Risks associated with small-capitalisation/mid-capitalisation companies

The stock of small-capitalisation/mid-capitalisation companies may have lower liquidity and their prices are more volatile to adverse economic developments than those of larger capitalisation companies in general. The value of the investments in such companies may therefore be adversely affected and investors may suffer loss.

4.12 Risks associated with high volatility of the equity market in certain countries and regions

High market volatility and potential settlement difficulties in these markets may result in significant fluctuations in the prices of the securities traded on such markets and thereby may adversely affect the value of the APIFs/ITCISs trading in these markets, which in turn affects the value of the relevant constituent fund.

4.13 Risks associated with regulatory or exchanges requirements of the equity market in certain countries and regions

Securities exchanges in certain countries and regions may have the right to suspend or limit trading in any security traded on the relevant exchange. The government or the regulators may also implement policies that may affect the financial markets. All these may have a negative impact on the investments in such regions.

4.14 Sovereign debt risks

Investments in debt 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 APIF/ITCIS investing in such debt securities to participate in the restructuring of such debts. The APIF/ITCIS may suffer significant losses when there is a default of sovereign debt issuers thereby affecting the value of the constituent fund.

4.15 Valuation risks

Valuation of investments may involve uncertainties and judgmental determinations. If such valuation turns out to be incorrect, this may affect the value of the investments and investors may as a result suffer loss.

4.16 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.

4.17 Eurozone risks

In light of ongoing concerns on the sovereign debt risk of certain countries within the Eurozone, investments in the region may be subject to higher volatility, liquidity, currency and default risks. Any adverse events, such as a credit downgrade of a sovereign or exit of EU members from the Eurozone, may have a negative impact on the value of the investments and investors may as a result suffer loss.

4.18 Custodial risk

Custodians or sub-custodians may be appointed in local markets for the purpose of safekeeping assets in those markets. Where an APIF/ITCIS invests in markets where custodial and/or settlement systems are not fully developed, the assets of such APIF/ITCIS may be exposed to custodial risk. In case of liquidation, bankruptcy or insolvency of a custodian or sub-custodian, the relevant APIF/ITCIS may take a longer time to recover its assets. In the worst case scenario such as the retroactive application of legislation and fraud or improper registration of title, the constituent fund or its APIF/ITCIS may even be unable to recover all of its assets. The costs borne by an APIF/ITCIS in investing and holding investments in such markets will be generally higher than in an organized securities market, which may adversely affect the NAV of the APIF/ITCIS and so the relevant constituent fund, and investors may as a result suffer loss.

4.19 Hedging risk

Investment manager(s) are permitted, but not obliged, to use hedging instruments or hedging techniques to attempt to offset risks. There is no guarantee that hedging instruments will be available or hedging techniques will achieve their desired result. This may have adverse impact on the relevant investment and its investors.

4.20 Risks relating to investing solely in a single APIF or ITCIS

Investors should note that there is risk related to investing solely in a single APIF/ITCIS. In the event that the underlying APIF/ITCIS of a constituent fund is, for whatever reason, adversely affected or terminated, the feeding constituent fund will likewise be affected and may, in certain circumstances, be terminated.

4.21 Risks relating to investing in an APIF or ITCIS that invests in a single market

Where investments are made in the assets or securities of a single market, such investments will be subject solely to the political, economical and social condition of that market and therefore achieving a very limited level of diversification of risk. In the event of any adverse market change, the relevant investment manager(s) may not be able to invest in other markets.

4.22 Risk relating solely to investment in the Principal Guaranteed Fund

The Principal Guaranteed Fund invests solely in an insurance policy based APIF issued by the Sponsor. The guarantee of the Principal Guaranteed Fund Policy is given by the Sponsor. Where the Sponsor is liquidated, investors may not have access to their investments temporarily, or their value may be reduced. Investors in the Principal Guaranteed Fund are therefore subject to the credit risks of the Sponsor. Please refer to Appendix 1 (*Insurance policy based APIF*) for details of the guarantee features and guarantee conditions.

4.23 Fund of funds risk

The assets of each of the constituent funds in the form of portfolio management fund will be invested in two or more APIFs and/or ITCISs which are managed by different investment managers. While PAM will select APIFs and ITCISs for these constituent funds' investments with a view to allowing these constituent funds to achieve their investment objectives, there can be no assurance that the investment objectives can be achieved nor the selection of APIFs and/or ITCISs will result in an effective diversification of investment risks.

4.24 Risks of investing in collective investment schemes

Investments in collective investment schemes are subject to the risks associated with the underlying funds. Investors in the collective investment schemes do not have control of the investments of the underlying funds and there is no assurance that the investment objective and strategy of the underlying funds will be successfully achieved, which may adversely affect the value of the investments and investors may as a result suffer loss. Further, the collective investment schemes invested may not be regulated by the SFC. There may be additional costs involved when investing in these underlying collective investment schemes. There is also no guarantee that the underlying collective investment schemes will always have sufficient liquidity to meet redemption requests as and when made.

4.25 Risks associated with investments in PRC securities

4.25.1 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 the investments. 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. Under exceptional circumstances, payment of redemptions and/or distribution payment in RMB may be delayed due to the exchange controls and restrictions applicable to RMB.

4.25.2 PRC investment risk

The value of the investments concentrated in the PRC may be more volatile than investments having a more diverse portfolio. Additionally, the value of such investments may be more susceptible to adverse economic, political, policy, foreign exchange, liquidity, tax, legal or regulatory event affecting the PRC.

4.25.3 PRC tax risk with respect to capital gains

Investments in the PRC may be subject to the potential tax liability for capital gains arising from disposal of PRC securities issued by PRC tax resident enterprises. Having consulted a professional and independent tax adviser, the investment manager(s) of the underlying APIF(s) in which the constituent fund(s) invest currently do not make any capital gains tax provision on the gross unrealised and realised capital gains derived from trading of PRC securities. However, the underlying investment manager(s) reserve the right to make a provision for the potential capital gains tax in respect of investments in the PRC in the future.

There is a possibility of the PRC tax rules, regulations and practice being changed and taxes being applied retrospectively. There is no assurance that current tax concessions and exemptions will not be abolished in the future. As such, there is a risk that PRC investments may have tax liabilities which were not provided for, which may potentially cause substantial loss to the relevant investments. The underlying investment manager(s) will closely monitor any further guidance by the relevant PRC tax authorities and adjust the tax provision policy of the relevant APIFs accordingly.

The actual applicable tax rate imposed or the actual amount of tax liability assessed by PRC tax authorities may differ from the capital gains tax provision made by the underlying investment manager(s) and may change from time to time.

Investors should note that if the actual applicable tax rate or liability levied by the PRC tax authorities is more than the capital gains tax provision (if any), the NAV of the relevant constituent fund may decrease more than anticipated as the APIF(s) in which the relevant constituent fund invests will, directly or indirectly, have to bear the additional tax liabilities. In this case, the additional tax liabilities will only impact units in issue at the relevant time, and the then existing investors and subsequent investors will be disadvantaged as such investors will bear, through the relevant APIF(s), a disproportionately higher amount of tax liabilities as compared to that borne at the time of investment in such APIF(s).

On the other hand, if the actual applicable tax rate or liability levied by the PRC tax authorities is less than the capital gains tax provision (if any) so that there is an excess in the tax provision amount, investors who have redeemed the units in the relevant constituent fund before the PRC tax authorities' ruling or guidance in this respect will be disadvantaged as they would have borne the loss from the overprovision and will not be entitled to or have any right to claim any part of such overprovision. In this case, the then existing and new investors may benefit if the difference between the capital gains tax provision and the actual applicable tax rate or liability can be returned to the account of the relevant underlying APIF as assets thereof, thus indirectly benefiting the relevant constituent fund. Investors will be advantaged or disadvantaged depending on the final tax liabilities, the level of capital gains tax provision and timing of their subscription or redemption.

4.25.4 Legal and regulatory risk

The APIF(s) of a constituent fund may invest in China A-Shares through Stock Connect program which aim to achieve mutual stock market access between Mainland China and Hong Kong such as Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock

Connect. Stock Connect program are novel in nature and relevant rules and regulations will be subject to change which may have potential retrospective effect.

4.25.5 Trading risks

Trading in China A-Shares through Stock Connect program is subject to quota limitations, operational risks, risks arising from differences in trading days and restrictions on selling imposed by front-end monitoring and recalling of eligible stocks. Further, investment through such program are not covered by Hong Kong's Investor Compensation Fund. Where a suspension in the trading through a program is effected, the relevant APIF's ability to invest in China A-Shares or access the PRC market through such program will be adversely affected. In such events, the relevant constituent fund's ability to achieve its investment objective could be negatively affected, which may adversely affect the NAV of such constituent fund and investors may as a result suffer loss.

4.26 Risk of investing in CIBM and/or Bond Connect

Investing in China debt securities through the CIBM initiative/Bond Connect (the "**Program**") is subject to various risks such as regulatory changes, market volatility, insufficient liquidity, agency default and other risks applied to investment in debt securities. Investors and their investment could be negatively affected and suffer a loss.

The regulations or policies relating to the Program may change from time to time. There is no guarantee that the Program will not be restricted or ceased which adversely affect the relevant constituent fund's ability to achieve its investment objective.

Low trading volume in the CIBM may cause market volatility and insufficient liquidity. Prices of debt securities traded on this market may fluctuate significantly which may widen the bid and offer spreads. This may incur material trading and realisation costs for the relevant constituent fund.

Foreign investors may invest in the Program through opening an account with onshore settlement agent, offshore custody agent, registration agent or other third parties (as the case may be). Investors are therefore subject to the risk of default or errors on these agents.

4.27 Risk relating solely to investment in the Principal – MPF Conservative Fund and the Principal Cash Fund

Investment in the Principal – MPF Conservative Fund and the Principal Cash Fund are not equivalent to placing funds on deposit with a bank or deposit-taking company. A member's rights on redemption of any units held for the account of the member in these constituent funds are limited to the bid price of such units at the relevant time, which could be more or less than the offer price at which such units were purchased. These constituent funds are not subject to the supervision of the Hong Kong Monetary Authority.

4.28 Risk relating solely to investing in the Principal – Hang Seng Index Tracking Fund

4.28.1 Tracking of the Hang Seng Index level

Changes in the NAV of the TraHK are unlikely to replicate exactly changes in the Hang Seng Index. This is due to, among other things (including those referred to in the above section 3.4.13 (*Principal – Hang Seng Index Tracking Fund*) under the paragraph titled "Tracking of the Hang Seng Index by the TraHK"), the fees and expenses payable by the TraHK and transaction fees and/or stamp duty incurred in adjusting the composition of the TraHK's portfolio because of changes in the Hang Seng Index and dividends received, but not distributed, by the TraHK. In addition, as a result of the unavailability of Index Shares, the transaction costs in making an adjustment outweighing the anticipated benefits of such adjustment or for certain other reasons, there may be timing differences between changes in the Hang Seng Index and the corresponding adjustment to the shares which comprise the TraHK's portfolio. During times when Index Shares are unavailable or when the investment manager of the TraHK determines it is in the best interests of the TraHK to do so, the TraHK may maintain a small cash position or invest in other permitted contracts or investments until Index Shares become available. The TraHK may also hold future Index Shares and/or former Index Shares. Such costs, expenses, cash balances, timing differences or holdings could cause the TraHK's NAV to be lower or higher than the relative level of the Hang Seng Index.

4.28.2 The Principal – Hang Seng Index Tracking Fund level

The tracking error, which is calculated as the deviation of the Principal – Hang Seng Index Tracking Fund's performance from the Hang Seng Index, might be higher during the initial period after the Principal – Hang Seng Index Tracking Fund was launched due to the time required to process and administer instructions to invest in the Principal – Hang Seng Index Tracking Fund. The tracking error and performance of the Principal – Hang Seng Index Tracking Fund will also be affected as a result of (i) the Principal – Hang Seng Index Tracking Fund holding cash to meet members' redemption/switching requests in respect of the Principal – Hang Seng Index Tracking Fund and (ii) fee deduction from the Principal – Hang Seng Index Tracking Fund as disclosed in section 5.1 (*Fee table*) under the table "*(C) Annual fund operating charges & expenses of constituent funds & underlying funds*".

4.28.3 Passive investment

Since the Principal – Hang Seng Index Tracking Fund and the TraHK are not actively managed, neither the investment manager of the Principal – Hang Seng Index Tracking Fund nor the manager of the TraHK will attempt to select stock individually or take defensive positions in declining markets. Declines on the Hang Seng Index are expected to result in corresponding falls in the value of the funds.

4.28.4 The TraHK may trade at a discount or premium to NAV

The market price of the units in the TraHK may sometimes trade above or below its NAV. There is a risk, therefore, that the Principal – Hang Seng Index Tracking Fund may not be able to buy or sell at a price close to the NAV of the TraHK. The deviation from NAV is dependent on a number of factors, but will be accentuated when there is a large imbalance between market supply and demand for the constituent stocks of the Hang Seng Index. The "bid/ask" spread (being the difference between the prices being bid by potential purchasers and the prices being asked by potential sellers) is another source of deviation from NAV. The bid/ask spread can widen during periods of market volatility or market uncertainty, thereby increasing the deviation from NAV.

4.28.5 Hang Seng Index risk factors

(a) Hang Seng Index is subject to fluctuations

The investment objective of the TraHK is to provide investment results that closely correspond to the performance of the Hang Seng Index. In the past, the Hang Seng Index has experienced periods of volatility and decline. The Hang Seng Index may experience such volatility or decline again in the future. If the Hang Seng Index experiences volatility or declines, the price of the TraHK will vary or decline accordingly. This will in turn have similar impact on the Principal – Hang Seng Index Tracking Fund.

(b) Concentration of the Hang Seng Index in certain economic sectors and companies

As at 28 February 2020, the industry weightings for financials, properties and construction and information technology accounted for approximately 48.18%, 10.50% and 11.78% of the Hang Seng Index respectively. As a result, variations in the performance of these sectors could have a larger effect on the price of the TraHK than a similar variation in the performance of other sectors comprised in the Hang Seng Index. Declines in the share price of companies in the Hang Seng Index may result in declines in the price of the TraHK. This will in turn have similar impact on the Principal – Hang Seng Index Tracking Fund.

(c) Composition of the Hang Seng Index may change

The companies which comprise the Hang Seng Index are determined by Hang Seng Indexes Company Limited from time to time. The composition of the Hang Seng Index may also change if one of the constituent companies were to delist its shares or if a new company were to list its shares on the Stock Exchange and be added to the Hang Seng Index. If this happens, the weighting or composition of the shares owned by the TraHK would be changed as considered appropriate by the investment manager in order to achieve the investment objective. Thus, an investment in the TraHK will generally reflect the Hang Seng Index as its constituents change from time to time, and not necessarily the way it is comprised at the time of an investment in the TraHK.

(d) Licence to use Hang Seng Index may be terminated

The investment manager and the trustee of the TraHK have been granted a licence by Hang Seng Data Services Limited and Hang Seng Indexes Company Limited to use the Hang Seng Index as a basis for determining the composition of the TraHK and to use certain trade marks or any copyright in the Hang Seng Index. The TraHK may not be able to fulfill its objective and may be terminated if the licence agreement (the "**HSI Licence Agreement**") among Hang Seng Data Services Limited, Hang Seng Indexes Company Limited, the trustee and the investment manager of the TraHK is terminated. The TraHK may also be terminated if the Hang Seng Index ceases to be compiled or published and there is no replacement index, using, in the opinions of the investment manager, the trustee and the supervisory committee of the TraHK, the same or substantially similar formula for the method of calculation as used in calculating the Hang Seng Index. In such circumstances, State Street Global Advisors Asia Limited, as the investment manager of the Principal – Hang Seng Index Tracking Fund, may, subject to the prior approval of the MPFA and the SFC, seek a replacement ITCIS. The Principal – Hang Seng Index Tracking Fund may also be terminated if no suitable replacement ITCIS is found.

(e) Compilation of Hang Seng Index

The HSI Licence Agreement expressly excludes any duty on Hang Seng Indexes Company Limited to exercise reasonable skill, care or diligence in relation to the Hang Seng Index, its computation of the Hang Seng Index, the collection and use of information for computing the Hang Seng Index or the change by Hang Seng Indexes Company Limited of the composition and weighting of the constituent companies.

4.29 Principal risks of investing in the DIS

Members should note that there are a number of attributes of the design of the DIS strategy as set out below, which affect the types of risks associated with the DIS.

4.29.1 Limitations on the strategy

(a) Age as the sole factor in determining the asset allocation under the DIS

As set out in more detail in section 3.3 (*MPF default investment strategy (the "**DIS**")*), members should note that the DIS adopts pre-determined asset allocation and automatically adjusts asset allocation based only upon a member's age. The DIS does not take into account factors other than age, such as market and economic conditions nor member's personal circumstances including investment objectives, financial needs, risk tolerance or likely retirement date. Members who want their MPF portfolio to reflect their own personal circumstances can make their own selection of funds from the range available in the Plan.

(b) Pre-set asset allocation

Members should note that the DIS CFs have to follow the prescribed allocation between higher risk assets and lower risk assets at all times subject to a tolerance level of + or – 5%. The prescribed exposure between higher risk assets and lower risk assets of the DIS CFs will limit the ability of the investment manager of the underlying funds of each of the DIS CFs to adjust asset allocations in response to sudden market fluctuations; for example through adoption of either a more defensive asset allocation approach (being an approach which seeks to reduce higher risk assets exposure), or alternatively a more aggressive asset allocation approach (being an approach which seeks to increase higher risk assets exposure) even if, for some reason, the investment manager of the underlying funds of each of the DIS CFs thought it appropriate to do so.

(c) Annual de-risking between the DIS CFs

Members should note that de-risking for each relevant member will generally be carried out on a member's birthday regardless of the prevailing market conditions. While the de-risking process aims at managing risks of the investments through reducing exposure to higher risk assets, it may preclude the DIS from fully capturing the upside in rising equity markets during the de-risking process and therefore would underperform as compared with funds not adopting the de-risking process under the same market conditions.

It is possible that the de-risking process is done at a time which may result in members reducing exposure to an asset class which outperforms and increasing exposure to an asset class which underperforms. The asset allocation changes gradually over a 15-year time period. Members should be aware that the de-risking operates automatically regardless of the wish of a member to adopt a strategy which might catch market upside or avoid market downside. Also, the de-risking process cannot insulate members from "**systemic risk**", such as broad-based recessions and other economic crisis, which will affect the prices of most asset classes at the same time.

(d) Potential rebalancing within each of the DIS CFs

In order to maintain the prescribed allocation between the higher risk assets and lower risk assets within each of the DIS CFs, the investments of each of the DIS CFs may have to be continuously rebalanced. For example, when the higher risk assets perform poorly, the Principal Core Accumulation Fund's or the Principal Age 65

Plus Fund's asset allocation may fall outside the respective prescribed limit. In this case, each of the DIS CFs will have to liquidate some of the better performing lower risk assets in order to invest more in the higher risk assets, even if the investment manager of the underlying funds of each of the DIS CFs is of the view that the higher risk assets might continue to perform poorly.

(e) Additional transaction costs

Due to (i) the potential rebalancing of higher risk assets and lower risk assets in the process of maintaining the prescribed allocation within each of the DIS CFs and (ii) the annual reallocation of accrued benefits for members under the de-risking process, the DIS may incur greater transaction costs than a fund/strategy with more static allocation.

4.29.2 General investment risk related to DIS

Although the DIS is a statutory arrangement, it does not guarantee capital repayment nor positive investment returns (in particular for those members with only a short investment horizon before retirement). The two designated constituent funds for DIS are mixed asset funds investing in a mix of equities and bonds. Members should note that the DIS which invests in these constituent funds is subject to the general investment risks that apply to mixed asset funds. For general key risks relating to investment funds, please refer to the other risk factors in this section 4 (*Risks*).

4.29.3 Risk on early withdrawal and switching

Since the DIS has been developed having regard to the long-term balance between risks and likely returns, and assumes retirement at the age of 65, any cessation of the DIS (for example through early withdrawal of accrued benefits or switching into other funds) will affect that balance.

4.29.4 Impact on members keeping accrued benefits in the DIS beyond the age of 64

Members should note that the de-risking process will discontinue upon reaching the age of 64. Members should be aware that all accrued benefits (including accrued benefits transferred from another registered scheme)/on-going contributions, if any, will be invested in the Principal Age 65 Plus Fund which holds around 20% of its assets in higher risk assets which may not be suitable for all members beyond the age of 64.

5. FEES AND CHARGES

Fees, charges and expenses will be payable out of the Plan to the extent permitted by the MPF Ordinance, General Regulation, relevant codes and guidelines.

5.1 Fee table

The following table describes the fees, charges and expenses that employers and members may pay upon and after joining the Plan. Important explanatory notes and definitions are set out at the bottom of the table.

(A) Joining fee & Annual fee		
Type of fees	**Current amount (HKD)**	**Payable by**
Joining fee[1] (Note a)	Currently waived	Employer/ self-employed person
Annual fee[2]	N/A	

(B) Fees & charges payable arising from transactions in individual member's account			
Type of fees & charges	**Constituent fund**	**Current level**	**Payable by**
Contribution charge[3] (Note b)	Principal - MPF Conservative Fund	N/A	
	All other constituent funds	Currently waived (Previously 1% of contribution amount)	Deduct from contributions
Offer spread[4] (Note c)	Principal - MPF Conservative Fund	N/A	
	All other constituent funds	Nil	Deduct from contributions
Bid spread[5] (Note d)	Principal - MPF Conservative Fund	N/A	
	All other constituent funds	Nil	Deduct from redemptions
Withdrawal charge[6]	Principal - MPF Conservative Fund	N/A	
	All other constituent funds	N/A	

<table>
<tr><th colspan="4">(C) Annual fund operating charges & expenses of constituent funds & underlying funds. All management fees shown in this Part are inclusive of all management fees imposed by the constituent funds and their underlying APIFs & ITCISs</th></tr>
<tr><th>Type of charges & expenses</th><th>Constituent fund</th><th>Current level (% p.a. of NAV)</th><th>Deducted from</th></tr>
<tr><td rowspan="10">Management fees[7] (Note e)</td><td>Principal - MPF Conservative Fund (Note f)</td><td>0.95</td><td rowspan="10">Relevant assets of the constituent fund and/ or underlying fund(s)</td></tr>
<tr><td>Principal Growth Fund</td><td rowspan="3">1.59</td></tr>
<tr><td>Principal Balanced Fund</td></tr>
<tr><td>Principal Stable Fund</td></tr>
<tr><td>Principal Cash Fund</td><td>0.91</td></tr>
<tr><td>Principal Guaranteed Fund</td><td>1.00</td></tr>
<tr><td>Principal - Hang Seng Index Tracking Fund</td><td>up to 0.99</td></tr>
<tr><td>Principal Core Accumulation Fund</td><td>0.75</td></tr>
<tr><td>Principal Age 65 Plus Fund</td><td>0.75</td></tr>
<tr><td rowspan="6">Management fees[7] of constituent funds in the form of portfolio management funds (Note e)</td><td>Principal Dynamic Hong Kong Equity Fund (Note g)</td><td>1.59</td><td rowspan="6">Relevant assets of the constituent fund and/ or underlying fund(s)</td></tr>
<tr><td>Principal Dynamic Global Equity Fund (Note g)</td><td>1.75</td></tr>
<tr><td>Principal Dynamic Asia Pacific Equity Fund (Note g)</td><td>1.75</td></tr>
<tr><td>Principal Dynamic Global Bond Fund (Note g)</td><td>1.49</td></tr>
<tr><td>Principal Dynamic Asian Bond Fund (Note g)</td><td>1.33</td></tr>
<tr><td>Principal Dynamic Greater China Equity Fund (Note g)</td><td>1.37</td></tr>
<tr><td>Guarantee fee[8] (Note h)</td><td>Principal Guaranteed Fund</td><td>1.00</td><td>Relevant assets of the insurance policy based APIF</td></tr>
<tr><td colspan="4">Other expenses (note i)

Charges and expenses include (but are not limited to) the charges and expenses of investing and realising the investments of the constituent funds/APIFs/ITCISs, fees and expenses of the custodians/sub-custodians of the assets of the Plan/APIFs/ITCISs, fees and expenses of the auditors, establishment costs of the Plan and constituent funds/APIFs/ITCISs, valuation costs, legal fees, other professional fees, charges and expenses incurred in connection with any regulatory approval, any disbursements of out-of-pocket expenses properly incurred, costs and expenses incurred to effect any indemnity insurance, compensation fund levy (if any), and charges and expenses incurred in the preparation and printing of any offering document, accounts and reports of the Plan/APIFs/ITCISs.

The establishment costs of the DIS CFs, which amount to approximately HKD150,000 for each such constituent fund, will be amortised against the NAV of the DIS CFs over the first five accounting periods of such funds.

Other than as stated above, the establishment cost of the Plan and the other constituent funds have been fully waived or otherwise amortised.

Certain out-of-pocket recurrent expenses relating to the DIS CFs are subject to a statutory annual limit of 0.20% of the NAV of each of the DIS CFs and will not be charged to or imposed on the DIS CF in excess of that amount. Please refer to section 5.3 (Fees and out-of-pocket expenses of the DIS) for details.</td></tr>
</table>

(D) Other fees & charges for providing additional services
Type of charges & expenses
There are currently no fees charged upon switching of units between constituent funds by a member or switching of units between APIFs managed by the same investment manager.

DEFINITIONS

The following are the definitions of the different types of fees and charges.

1. "**Joining fee**" means the one-off fee charged by the Sponsor and payable by the employers and/or self-employed person upon joining the Plan. Joining fee is the establishment fee as stated in the Trust Deed.

2. "**Annual fee**" means the fee charged by the Trustee/Sponsor on an annual basis and payable by the employers and/or members of the Plan.

3. "**Contribution charge**" means the fee charged by the Sponsor against any contributions paid to the Plan. This fee is usually charged as a percentage of contributions and will be deducted from contributions. This charge does not apply to the Principal – MPF Conservative Fund. Contribution charge is the initial charge as stated in the Trust Deed.

4. "**Offer spread**" is charged by the Sponsor on the constituent fund level and by the investment manager (if applicable) on the APIF/ITCIS level, in which each is charged upon subscription of units of a constituent fund by a member or units of an APIF/ITCIS. Offer spread does not apply to the Principal – MPF Conservative Fund. Offer spread at the constituent fund level is the preliminary charge (if any) as stated in the Trust Deed. Offer spread for a transfer of accrued benefits at the constituent fund level can only include necessary transaction costs incurred or reasonably likely to be incurred in selling or buying investments in order to give effect to the transfer and are payable to a party other than the Trustee. Offer spread at the APIF/ITCIS level (if any) is the aggregate of any preliminary/initial/initial sales charge stated in the prospectus or explanatory memorandum of the APIF/ITCIS, plus where relevant, an allowance for transaction costs charged by the relevant investment manager(s) (which is the allowance/surcharge as stated in the trust deed or insurance policy of the relevant APIF/ITCIS).

5. "**Bid spread**" is charged by the Sponsor on the constituent fund level and by the investment manager (if applicable) on the APIF/ITCIS level, in which each is charged upon redemption of units of a constituent fund by a member or units of an APIF/ITCIS. Bid spread does not apply to the Principal – MPF Conservative Fund. Bid spread at the constituent fund level is the aggregate of the redemption/realisation charge (if any) as stated in the Trust Deed. Bid spread at the constituent fund level for a transfer of accrued benefits, withdrawal of accrued benefits in a lump sum, or by instalments can only include necessary transaction costs incurred or reasonably likely to be incurred in selling or buying investments in order to give effect to the transfer or withdrawal and are payable to a party other than the Trustee. Bid spread at the APIF/ITCIS level (if any) is the aggregate of any redemption/realisation charge stated in the prospectus or explanatory memorandum of the APIF/ITCIS, plus where relevant, an allowance for transaction costs charged by the relevant investment manager(s) (which is the allowance/deduction as stated in the trust deed or insurance policy of the relevant APIF/ITCIS).

6. "**Withdrawal charge**" means the fee charged by the Trustee/Sponsor upon withdrawal of accrued benefits from the Plan. This fee is usually charged as a percentage of the withdrawal amount and will be deducted from the withdrawal amount. This charge does not apply to the Principal – MPF Conservative Fund. A withdrawal charge for a withdrawal of accrued benefits, in a lump sum, or by instalments can only include necessary transaction costs incurred or reasonably likely to be incurred in selling or buying investments in order to give effect to the withdrawal and are payable to a party other than the Trustee. In respect of special voluntary contributions, withdrawals are limited to six times per calendar year and no withdrawal charge is currently levied.

7. "**Management fees**" includes fees paid to the trustee, custodian, investment managers (and its delegates) and sponsor (where applicable) of the Plan, the constituent funds and the APIF/ITCIS for providing their services to the relevant fund. They are usually charged as a percentage of the NAV of a fund. In the case of the DIS CFs, management fees payable to the parties named above, or their delegates, can only (subject to certain exceptions in the MPF Ordinance) be charged as a percentage of the NAV of the fund. The management fees of each DIS CF are subject to a statutory daily limit equivalent to 0.75% p.a. of the NAV of the DIS CF which applies across both the constituent fund and underlying funds.

8. “**Guarantee fee**” refers to an amount that is deducted out of the assets of the insurance policy based APIF and paid to the guarantor (i.e. the Sponsor) for the purpose of providing the guarantee. This fee is usually charged as a percentage of the NAV of the insurance policy based APIF.

EXPLANATORY NOTES

In respect of any increase in fees and charges from the current level as stated, at least three months’ prior notice (or such shorter notice period as agreed with the SFC and the MPFA) must be given to all members and employers.

Notes:

a. Joining fee of currently up to HKD5,000 per employer/self-employed person and HKD100 per member may be levied by the Sponsor. No joining fee will be charged in respect of a personal account member, a special voluntary contribution member or an employer/self-employed person joining the Plan in connection with a transfer from another registered scheme. Currently, no joining fee is levied.

b. Contribution charge of up to 1% of contribution amount may be levied by the Sponsor. Pursuant to the MPF Ordinance, General Regulation, relevant codes and guidelines, no contribution charge will apply to amounts invested in the Principal – MPF Conservative Fund or transferred from another registered scheme. Currently, no contribution charge is levied.

c. Offer spread: Subject to the MPF Ordinance, General Regulation, relevant codes and guidelines, a preliminary/initial/initial sales charge of currently up to 2% of the offer price may be levied by the Sponsor at the constituent fund level, and up to 5% of the offer price may be levied by the relevant investment managers at the APIFs/ITCISs level. Where the relevant investment manager(s) have made an allowance for transaction costs, such costs may be levied at the APIFs/ITCISs level in addition to the preliminary/initial/initial sales charge. Currently, no offer spread is levied.

d. Bid spread: Subject to the MPF Ordinance, General Regulation, relevant codes and guidelines, a redemption/realisation charge of currently up to 5% of the bid price may be levied at the APIFs/ITCISs level. Where the relevant investment manager(s) have made an allowance for transaction costs, such costs may be levied at the APIFs/ITCISs level in addition to the redemption/realisation charge. Currently, no bid spread is levied.

e. Breakdown of Management Fees

The management fees disclosed in Part (C) of the above table represent the total amount of management fees currently payable from the assets of each constituent fund and its underlying APIFs/ITCISs.

The management fee is accrued on a daily basis and is paid monthly in arrears by the relevant constituent fund and/or underlying fund(s).

The breakdown of the current and maximum levels of management fees payable out of each constituent fund is as follows:##

	Constituent fund level (% p.a. of NAV)				
	Sponsor fee		Trustee fee+ and administration fee	Investment management fee	Maximum aggregate management fee
Constituent fund	Current	Maximum	Current	Current	
Principal – MPF Conservative Fund	0.25	1.50	0.57	0.11 – 0.13&**	4.00
Principal Growth Fund	0.25	1.50	0.99	0.33 – 0.35&**	4.00
Principal Balanced Fund	0.25	1.50	0.99	0.33 – 0.35&**	4.00
Principal Stable Fund	0.25	1.50	0.99	0.33 – 0.35&**	4.00
Principal Cash Fund	0.25	1.50	0.53	0.11 – 0.13&**	4.00
Principal Guaranteed Fund	Nil	1.50	Nil	Nil	2.00
Principal Dynamic Global Equity Fund***	0.25	1.50	1.00	0 – 0.50**	2.00
Principal Dynamic Asia Pacific Equity Fund***	0.25	1.50	1.00	0 – 0.50**	2.00
Principal Dynamic Global Bond Fund***	0.25	1.50	0.77	0 – 0.47**	2.00
Principal Dynamic Greater China Equity Fund***	0.25	1.50	0.64	0 – 0.48**	3.20
Principal Dynamic Asian Bond Fund***	0.25	1.50	0.65	0 – 0.43**	3.20
Principal Dynamic Hong Kong Equity Fund***	0.25	1.50	0.86	0 – 0.48**	2.00
Principal – Hang Seng Index Tracking Fund	0.25	1.50	0.58	0.06	2.00
Principal Core Accumulation Fund	Nil	N/A	0.50	0.25&	N/A
Principal Age 65 Plus Fund	Nil	N/A	0.50	0.25&	N/A

+ *The trustee fee is subject to a cap of 0.5% of NAV. The actual trustee fee therefore will not exceed 0.5% of NAV.*

& *The investment management fees of these constituent funds are only charged at the constituent fund level. The investment manager at the constituent fund level will pay, from its own funds, a fee to the investment manager and/or its delegate(s) at the underlying fund level.*

** *The investment management fee is variable and is subject to a cap at the upper bound of the rate. The investment management fee rates take into account the respective maximum rates of the trustee fee(a), (in respect of the constituent funds marked with ***) administration fee(b) and (in respect of the constituent funds marked with ***) investment management fee(c) at the underlying fund level, which are set out in the underlying fund fee breakdown table below. Where the trustee fee(a), (in respect of the constituent funds marked with ***) administration fee(b) and/or (in respect of the constituent funds marked with ***) the investment management fee(c) at the underlying fund level are not charged at the respective upper bounds as specified in the table below, the remainder of the investment management fee (i.e. the investment management fee rates in the table above less the aggregate of the actual trustee fee(a), (in respect of the constituent funds marked with ***) the actual administration fee(b) and (in respect of the constituent funds marked with ***) the actual investment management fee(c) at the underlying fund level) will be payable* *to the investment manager at the constituent fund level. The investment manager will adjust its investment management fee and not charge up to the cap of the investment management fee where a trustee fee(a), (in respect of the constituent funds marked with ***) an administration fee(b) and/or (in respect of the constituent funds marked with ***) an investment management fee(c) at the underlying fund level is charged. The total of: (i) the actual investment management fee at the constituent fund level plus(ii) the total of the actual trustee fee(a), (in respect of the constituent funds marked with ***) the actual administration fee(b) and (in respect of the constituent funds marked with ***) the actual investment management fee(c) at the underlying fund level, will equal the upper bound of the investment management fee indicated with ** in the table above.*

The breakdown of the current and maximum levels of management fees payable out of each of the APIF(s)/ITCIS(s) are as follows:##

	Underlying fund level (% p.a. of NAV)				
Constituent fund	Trustee fee(a)	Administration fee^(b)	Investment management fee(c)	Current aggregate management fee#(d)	Maximum aggregate management fee#
Principal – MPF Conservative Fund	up to 0.02	up to USD18,000 p.a.	Nil	up to 0.02	0.50
Principal Growth Fund	up to 0.02	up to USD18,000 p.a.	Nil	up to 0.02	0.50
Principal Balanced Fund	up to 0.02	up to USD18,000 p.a.	Nil	up to 0.02	0.50
Principal Stable Fund	up to 0.02	up to USD18,000 p.a.	Nil	up to 0.02	0.50
Principal Cash Fund	up to 0.02	up to USD18,000 p.a.	Nil	up to 0.02	0.50
Principal Guaranteed Fund	Nil	Nil	1.00*	1.00*	1.00*
Principal Dynamic Global Equity Fund***	up to 0.10	up to 0.05	up to 0.50	up to 0.50	0.65
Principal Dynamic Asia Pacific Equity Fund***	up to 0.10	up to 0.05	up to 0.50	up to 0.50	0.65
Principal Dynamic Global Bond Fund***	up to 0.10	up to 0.05	up to 0.47	up to 0.47	0.62
Principal Dynamic Greater China Equity Fund***	up to 0.10	up to 0.05	up to 0.48	up to 0.48	0.63
Principal Dynamic Asian Bond Fund***	up to 0.10	up to 0.05	up to 0.43	up to 0.43	0.58
Principal Dynamic Hong Kong Equity Fund***	up to 0.10	up to 0.05	up to 0.48	up to 0.48	0.63
Principal – Hang Seng Index Tracking Fund	up to 0.05	N/A	up to 0.05	up to 0.10	0.10
Principal Core Accumulation Fund	Nil	Nil	Nil	Nil	N/A
Principal Age 65 Plus Fund	Nil	Nil	Nil	Nil	N/A

^ *The administration fee is subject to a maximum of 0.50% p.a. of the NAV.*

\# *The aggregate of the actual trustee fee(a), (in respect of the constituent funds marked with ***) the actual administration fee(b) and the actual investment management fee(c) will not exceed the current aggregate management fee(d). The administration fee chargeable not in the form of a percentage of the NAV is not included in the current aggregate management fee(d).*

* *This is payable to the Sponsor who is the issuer and guarantor of the Principal Guaranteed Fund Policy, the underlying fund of the Principal Guaranteed Fund.*

The fee items in the above two tables, in respect of a constituent fund (other than the Principal Guaranteed Fund, the Principal – Hang Seng Index Tracking Fund and the DIS CFs), may not add up to the current level of the aggregate management fees of the constituent fund as set out in table (C) above. However, in any event, the management fees of each constituent fund will only be charged according to the current aggregate level in table (C) above.

f. Fees and charges of a MPF conservative fund can be deducted from either (i) the assets of the fund or (ii) members' account by way of unit deduction. The Principal – MPF Conservative Fund adopts method (i) hence, unit prices/NAV/fund performance quoted have incorporated the impact of such fees and charges.

g. The underlying APIF(s)/ITCIS(s) in which the relevant constituent fund invests and/or the investment manager of such underlying APIF(s)/ITCIS(s) may provide a rebate of up to 0.25% p.a. on the portion of management fees charged at such underlying APIF(s)/ITCIS(s) level. Such rebate will be payable to the relevant constituent fund. The management fees shown in table (C) have not taken into account such rebate.

h. At the APIF level, guarantee fee of currently up to 1% of NAV of the Principal Guaranteed Fund Policy may be levied. The guarantee fee is payable to the guarantor (i.e. the Sponsor), accrued on a daily basis and is paid monthly in arrears by the Principal Guaranteed Fund Policy.

i. The "**other expenses**" disclosed in Part (C) above include fees and expenses in relation to the Plan and those incurred in relation to the APIF/ITCIS.

At the constituent fund level

The fees and expenses in relation to the Plan include the fees and expenses incurred in connection with or with regard to the Plan and the constituent funds (including the establishment, maintenance and continuation of the Plan and the constituent funds, and such other fees and charges incurred in respect of the Plan and/or the constituent funds having to comply with or give effect to any legal and regulatory requirements) and may, subject to the terms of the Trust Deed, be charged to the assets of the constituent funds. Such fees and expenses may include, but are not limited to, the fees and expenses set out in Part (C) above, any fees, charges or levies payable to the SFC or the MPFA or other relevant regulatory bodies, license fees, transaction fees and costs (including but not limited to stamp and other duties, taxes, governmental charges, brokerage commission, foreign exchange costs and transfer fees and expenses) in relation to any acquisition or realisation of any units or investment or other property or cash or deposit or loan, the fees and expenses of the registrar, cost of convening meetings of members and the cost of preparing, translating, printing and distribution of documents, forms or other information relating to the Plan.

In relation to the Principal – MPF Conservative Fund: fees, charges and expenses will only be payable out of the Principal – MPF Conservative Fund to the extent permitted by the MPF Ordinance, General Regulation, relevant codes and guidelines.

Subject as provided above in relation to the Principal – MPF Conservative Fund, each constituent fund will bear the charges and expenses which are directly attributable to it. Where such charges and expenses are not directly attributable to a constituent fund, each constituent fund will bear such charges and expenses in proportion to its respective net asset value or in such manner as the Trustee with the agreement of the Sponsor shall consider fair.

Subject to the approval of the SFC and the MPFA, the Sponsor may also from time to time specify any other fee or charge in relation to the Plan or any constituent fund to be paid by the employers or members or out of any constituent fund.

No advertising fee/expense in relation to the Plan will be charged to the Plan, the constituent funds or to the members.

At the underlying fund level

The APIFs/ITCISs expenses include the fees and expenses incurred in connection with or with regard to the APIFs/ITCISs and may, subject to the constitutive documents of the APIFs/ITCISs, be chargeable to the assets of the APIFs/ITCISs. Such fees and expenses may include, but are not limited to, the fees and expenses set out in Part (C) above, any fees, charges or levies payable to any relevant regulatory bodies, exchange operators or related bodies, license fees, transaction fees and costs (including but not limited to stamp and other duties, taxes, governmental charges, brokerage commission, foreign exchange costs and transfer fees and expenses) in relation to any acquisition or realisation of any investment or other property or cash or deposit or loan (including any fees and expenses incurred by the investment manager or trustee or any of their associate in rendering any service in the claiming or collection of income or other rights in relation thereof), the fees and expenses of the registrar, cost of convening meetings of unitholders and the cost of preparing, translating, printing and distribution of documents, forms or other information relating to the APIFs/ITCIS.

In addition to the trustee fee, the trustees of the relevant APIFs/ITCISs may deduct from the APIFs/ITCISs any fees and charges in accordance with the relevant trust deeds and offering documents, including without limitation those incurred in the administration and operation of the APIFs/ITCISs. The trustees and/or the investment managers (as the case may be) of the relevant APIFs/ITCISs may also from time to time increase the level of management fees up to the maximum level or impose any other additional fees and charges in relation to the relevant APIFs/ITCISs, subject to the approval of the SFC and the MPFA and the prescribed notice period of the relevant APIFs/ITCISs for such change.

In addition, each APIF/ITCIS may bear a due proportion of the costs and expenses incurred by the investment manager and the trustee in establishing the fund. Please refer to the respective offering documents of the funds for further details.

The fees and charges attributable to the APIFs/ITCISs shall be levied against the APIFs/ITCISs only and shall not be deducted from the constituent funds of the Plan. As such, such fees and charges will be reflected in the unit prices of the APIFs/ITCISs and borne by all the unitholders of the APIFs/ITCISs.

No advertising fee/expense will be charged to the APIFs/ITCISs.

On-going costs illustrations

A document that illustrates the on-going costs on contributions to the constituent funds in the Plan (except for the Principal – MPF Conservative Fund and the Principal – Hang Seng Index Tracking Fund) is available for distribution with this MPF Scheme Brochure. For the illustrative example for the Principal – MPF Conservative Fund, please refer to Appendix 3 (*Illustrative example on the Principal – MPF Conservative Fund*). Before making any investment decisions concerning investments in the Plan, you should ensure that you have the latest version of these documents. A copy of these documents can be viewed on our website at www.principal.com.hk and obtained from our customer service centre at 30/F, Millennium City 6, 392 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong.

5.2 Cash commission rebates and soft dollar benefits

None of the investment managers or any of their respective connected persons (together, "**Relevant Persons**") may retain cash or other rebates from a broker or dealer in consideration of directing transactions to them.

A Relevant Person may effect transactions by or through the agency of another person with whom the Relevant Person or any of its connected persons have an arrangement under which that party will from time to time provide to or procure for the Relevant Person or any of its connected persons, goods, services or other benefits, such as research and advisory services, computer hardware associated with specialised software and performance measures etc., the nature of which is such that their provision can reasonably be expected to benefit the relevant APIF as a whole and may contribute to an improvement in the APIF's performance and that of the Relevant Person or any of its connected persons in providing services in respect of the APIF and for which no direct payment is made but instead the Relevant Person or any of its connected persons undertakes to place business with that party.

5.3 Fees and out-of-pocket expenses of the DIS

In accordance with section 34DD(4) and Schedule 11 of the MPF Ordinance, the aggregate of the payments for services specified in section 34DD(2) of the MPF Ordinance of the DIS CFs can only (subject to certain exceptions in the MPF Ordinance) be charged as a percentage of the NAV of the DIS CFs. These management fees are also subject to a statutory daily limit equivalent to 0.75% p.a. of the NAV of each of the DIS CFs which applies across both constituent funds and their underlying funds.

The above aggregate payments for services (i.e. management fees (as defined under section 5.1 (*Fee table*) include, but are not limited to, the fees paid or payable for the services provided by the Trustee, the Administrator, PAM and the Sponsor of the DIS CFs, the trustee, the administrator, the investment manager and the sponsor of the underlying fund(s) of each of the DIS CFs as well as any of the delegates from these parties. In particular, the management fees are in return for the trustee and administrative functions carried out by the Trustee and are inclusive of fees payable to the investment managers of the underlying funds for their investment management services. Such fees are calculated as a percentage of the NAV of each constituent fund and its underlying fund(s), but does not include any out-of-pocket expenses incurred by each constituent fund and its underlying fund(s).

In addition, in accordance with section 34DD(4) and Schedule 11 to the MPF Ordinance, the total amount of all payments that are charged to or imposed on each of the DIS CFs or members who invest in each of the DIS CFs, for out-of-pocket expenses incurred by the Trustee on a recurrent basis in the discharge of the Trustee's duties to provide services in relation to each of the DIS CFs, shall not in a single year exceed 0.2% of the NAV of each of the DIS CFs. For this purpose, out-of-pocket expenses include, for example, annual audit expenses, printing or postage expenses relating to recurrent activities (such as issuing annual benefit statements), recurrent legal and professional expenses, safe custody charges which are customarily not calculated as a percentage of NAV and transaction costs incurred by the DIS CFs in connection with recurrent acquisition of investments for the DIS CFs (including, for example, costs incurred in acquiring underlying funds) and annual statutory expenses (such as compensation fund levy where relevant) of the DIS CFs.

Members should note that out-of-pocket expenses that are not incurred on a recurrent basis may still be charged to or imposed on the DIS CFs. Such fees are not subject to the statutory caps mentioned in the preceding paragraphs.

6. ADMINISTRATIVE PROCEDURES

6.1 How to join the Plan

To participate in the Plan, an employer simply needs to:

- execute a participation agreement (agreeing to be bound by the Trust Deed); and
- execute a schedule to the participation agreement (if the employer wishes to make voluntary contributions in respect of its employees or transfer benefits in respect of its employees in other provident fund schemes to the Plan).

A self-employed person who wishes to participate in the Plan as a member is required to execute the participation agreement and application form.

A person who wishes to participate in the Plan as a member, including as a special voluntary contributions member (e.g. "**SVC member**") or a personal account member (e.g. a person who has amounts held in the Plan or will have amounts transferred to the Plan but in respect of whom no mandatory and voluntary contributions will be made to the Plan), is required to complete an application for membership.

6.2 Contributions

6.2.1 Mandatory contributions

(a) Employer and employee members

Subject to the provisions in the MPF Ordinance, every employer under the relevant participating scheme must, in respect of each of its employee members, pay to the Trustee out of its own funds an employer mandatory contribution of 5%* of each employee member's relevant income for each period during which income is paid or should be paid to each employee member (the "**contribution period**"). The mandatory contribution will not exceed the statutory maximum amount**.

At the same time, unless the employee member's relevant income falls below the statutory minimum amount**, such employer must, for each contribution period, deduct from the employee member's relevant income and pay to the Trustee an employee mandatory contribution of 5%* of such income, provided that the maximum contribution that would be so deducted should not exceed the statutory maximum amount**.

(b) Self-employed persons

Every self-employed person under the Plan must, from the commencement date of his participation in the Plan, pay to the Trustee a mandatory contribution of 5%* of his relevant income on a monthly or yearly basis as specified in the application unless his income falls below the statutory minimum amount**. The mandatory contribution that any self-employed person must contribute will not exceed the statutory maximum amount**.

* *The rate of contributions and its respective level of income may be changed under the MPF Ordinance and the General Regulation from time to time.*

** *Please contact our customer service hotline at 2802 2812/2885 8011 for the updated information on the statutory minimum and maximum levels of relevant income for MPF contributions stipulated under the current legislation.*

(c) Payment of contributions

Mandatory contributions must be paid to the Trustee by the 10th day (or such other day as specified by the MPF Ordinance, General Regulation, relevant codes and guidelines from time to time) after the end of the calendar month in which the relevant contribution period ends as required by the MPF Ordinance, General Regulation, relevant codes and guidelines. Where a self-employed person has opted to make mandatory contributions on a monthly or yearly basis (as set out in the prescribed form required by the Trustee from time to time), such mandatory contributions must be paid to the Trustee at the end of the contribution period.

6.2.2 Voluntary contributions

An employer may by execution of a schedule to the participation agreement, and a member (other than a personal account member or SVC member in respect of whom no mandatory and voluntary contributions are made to the Plan) may by execution of a form as specified by the Trustee from time to time, elect to make voluntary contributions to the Plan as a top-up contribution in addition to mandatory contributions.

Where mandatory contributions will be made by or in respect of the relevant member, voluntary contributions by or in respect of the relevant member must be paid at the same time and in the same manner as mandatory contributions. In other cases, voluntary contributions will be paid at such time and in such manner as the Trustee may determine. Voluntary contributions made by an employer in respect of a member are calculated and vested in the member in the manner stated in the relevant schedule to the participation agreement.

Subject to the terms of the Trust Deed, the employer, employee member and self-employed person may change their respective voluntary contributions by giving the Trustee the requisite notice.

The Trustee may reject voluntary contributions from any member and participating employer. Any rejected voluntary contributions will be returned in such manner and at such time (which in any event shall not exceed 60 days of receipt of any such contributions unless for some exceptional regulatory reasons the Trustee is unable to effect a return within such timeframe) as the Trustee may consider appropriate.

6.2.3 Special voluntary contributions

Subject to the Trustee's consent, a person (including an employee member or a self-employed person or any person who is or had been a member of a registered scheme or an occupational retirement scheme and wishes to make special voluntary contributions) may make special voluntary contributions to the Plan on a regular basis or in a lump sum by notifying the Trustee and completing a form as prescribed by the Trustee from time to time. Where a person is not already an employee member or a self-employed person of the Plan, such person must request to be a SVC member of the Plan so as to make special voluntary contribution to the Plan. Special voluntary contribution may be paid by the employee member from his own funds and may be made in such manner as the Trustee may specify from time to time.

The amount of regular special voluntary contributions must not be lower than HKD300 per month and the amount of special voluntary contribution in a lump sum must not be lower than HKD1,000 per payment. The Trustee may determine such other limit of special voluntary contribution or make any change in respect of the payment of special voluntary contributions by giving the member prior notice in writing from time to time. Currently, there is no upper limit on the amount of special voluntary contribution, whether on a regular basis or in a lump sum. However, the Trustee reserves the right not to accept any special voluntary contribution at any time by giving to the member 14 days' prior notice in writing.

6.2.4 General

All mandatory contributions, voluntary contributions and special voluntary contributions to the Plan must be made to the Trustee.

6.3 Investment in constituent funds

6.3.1 General

The Trustee will apply amounts (net of charges) paid by or on behalf of a member to acquire units in the constituent funds pursuant to the instructions of the member given in an investment mandate executed by the member subject to the provisions of the Trust Deed. The Trustee will apply such net amounts to acquire units on a valuation date within 14 business days (excluding any period of suspension in the determination of the NAV of the relevant constituent fund) of receiving cleared funds and information required by the Trustee.

Pending the acquisition of units in the constituent funds, the Trustee will hold such net amounts in cash or on deposit.

6.3.2 Instructions

All amounts relating to an employer's contributions (whether mandatory or voluntary contributions or balances of such contributions) must be invested in the same manner in the same constituent funds. Similarly, all amounts relating to a member's contributions (whether mandatory, or voluntary contributions or special voluntary contributions or balances of such contributions) must be invested in the same manner in the same constituent funds.

Currently, there is no restriction regarding the number of constituent funds a member may invest contributions in and a member may invest contributions in all constituent funds. Currently, the minimum percentage (which must be an integer percentage) for each of the following payments and transfers that may be invested in a constituent fund is 5%:

(a) each payment of the member's mandatory contributions, voluntary contributions or special voluntary contributions;

(b) each transfer of the member's mandatory contribution balance, voluntary contribution balance or special voluntary contributions balance;

(c) each payment of his employer's mandatory contributions or employer's voluntary contributions; and

(d) each transfer of employer's mandatory contribution balance or employer's voluntary contribution balance.

The application for membership form and change in investment form are available from the Sponsor. The Sponsor may limit the number of investment mandates and change in investment forms or switching instructions that may be given by or in respect of a member in any accounting period of the Plan. Currently, there is no limit to the number of switchings performed in an accounting period. However, the Trustee will not be responsible to any member for any loss resulting from the non-receipt of an application for membership form, change in investment form, an investment mandate or switching instruction.

Subject to the MPF Ordinance, General Regulation, relevant codes and guidelines, the Sponsor may from time to time restrict and vary the number of constituent funds in which a member may invest and the minimum amount or percentage of contributions and balances of contributions of a member that may be invested in or realised from a single constituent fund.

6.3.3 Issue of units

Units in a constituent fund shall be acquired at the offer price of such units. The calculation of the offer price of units of a constituent fund is set out in section 7.3 (*Calculation of offer and bid prices of constituent funds*).

A preliminary charge of currently up to 2% of the offer price may be levied by the Sponsor on the issue of units. The Sponsor may levy different rates of preliminary charges by reference to the constituent fund, employer, member, nature or amount of the sums to be invested in the constituent fund or otherwise. No preliminary charge will be levied on the issue of units relating to the Principal – MPF Conservative Fund. Currently, no preliminary charge is levied on other constituent funds either.

Fractions of less than one-ten thousandth of a unit will not be issued and amounts representing such fractions of a unit will be retained by the relevant constituent fund. No units of a constituent fund will be issued where the determination of the NAV of that constituent fund is suspended (for further details, see section 7.2 (*Suspension of determination of NAV and issuance and realisation of units*).

6.4 Mandates to invest

On becoming a member of the Plan, a member must give a written investment mandate to the Trustee with the investment mandate section on an application for membership completed and setting out how amounts paid by or on behalf of the member to the Plan are to be invested in the constituent funds. In the absence of a member's valid investment mandate, the Trustee will invest such amounts (net of charges) in the DIS. Where a member has multiple capacities under the Plan, the investment arrangement applies to the account of the member in each capacity individually. **Any change of investment mandate only applies to future contributions and will therefore not affect the existing investments of the accrued benefits.** For the avoidance of doubt, any change of mandate instruction given after enrolment and not meeting the requirements for a Specific Investment Instruction will be rejected, and in that case, the existing investment allocation (in respect of future contributions and accrued benefits transferred from another registered scheme) will remain unchanged.

A member can change the investment mandate by completing the investment mandate section on the change in investment form and returning it to the Trustee by hard copy submission (such as by way of mail or facsimiles) or by online submission via the Trustee's website or email. Please note that the cut-off time for handling valid instructions for change of investment mandate submitted by fax or through website is 4:00 p.m. on the relevant dealing day*. In order to ensure that the instruction can be processed on or prior to the intended effective date of the new investment mandate, members should refer to the "required time to complete" relating to change of investment mandate instructions as set out in the "Trustee Service Comparative Platform" in the MPFA's website before submitting such change of investment mandate instruction.

* *If a valid change of investment mandate instruction submitted by fax or through website is received by the Trustee before the cut-off time on a dealing day, it will be considered as received on the same day. If such change of investment mandate instruction is received by the Trustee after the cut-off time on a dealing day, it will be deemed to have been received on the next dealing day. If the change of investment mandate instruction is received by the Trustee at any time on a non-dealing day, it will be deemed to have been received before the cut-off time on the next dealing day.*

In respect of a member's account for which no investment instruction was given but for whatever reasons some but not all of the accrued benefits in that account were invested in the Original Default Investment Arrangement, unless the Trustee has received any Specific Investment Instructions, the member's accrued benefits (including future contributions and accrued benefits transferred from another registered scheme) in that account will be invested in the same manner as accrued benefits in that account were invested immediately before 1 April 2017.

6.5 Circumstances for accrued benefits to be invested in the DIS

6.5.1 New accounts set up on or after 1 April 2017

(a) When members join the Plan or set up a new account in the Plan, they have the opportunity to give a Specific Investment Instruction for their future contributions and accrued benefits transferred from another registered scheme. They may choose to invest their future contributions and accrued benefits transferred from another registered scheme into:

(i) the DIS; and/or

(ii) one or more constituent funds of their own choice (including the DIS CFs) and according to their assigned allocation percentage(s).

(b) Members should note that, if investments/accrued benefits in the Principal Core Accumulation Fund or the Principal Age 65 Plus Fund are made under the member's Specific Investment Instructions for investment in such fund (as a standalone fund choice rather than as part of the DIS offered as a choice) ("**standalone investments**"), those investments/accrued benefits will not be subject to the de-risking process. If a member's accrued benefits are invested in any combination of (i) the Principal Core Accumulation Fund and/or the Principal Age 65 Plus Fund as standalone investments and (ii) the DIS (no matter by default or by Specific Investment Instruction), accrued benefits invested under (i) will not be subject to the de-risking mechanism whereas accrued benefits under (ii) will be subject to the de-risking process. In this connection, members should pay attention to the different on-going administration arrangements applicable to accrued benefits invested in (i) and (ii). In particular, members will, when giving a fund switching instruction, be required to specify to which part of the accrued benefits (namely, under (i) or (ii)) the instruction relates.

(c) If a member opts for (a)(ii) above, the investment instruction must meet the requirements for a Specific Investment Instruction. If the investment instruction does not meet these requirements (e.g. where the total is less than or exceeds 100%) or no investment instruction is given upon enrolment, then the entire contributions and accrued benefits transferred from another registered scheme will be invested into the DIS. Where no Specific Investment Instruction is given in respect of a particular type of contribution, contribution falling under that type will be invested in the DIS.

(d) Where a member has multiple capacities under the Plan (e.g. a member being an employee member and a personal account member), the investment arrangement applies to the account of the member in each capacity individually. In other words, if a member is an employee member and a personal account member and wishes to switch his accrued benefits and contributions under the account related to his employee member status into DIS, such switching will only impact the account related to his employee member status and not the account related to his personal account member status.

6.5.2 Existing accounts set up before 1 April 2017

There are special rules to be applied for accounts which exist or are set up before 1 April 2017 ("**Pre-existing Accounts**") and these rules only apply to members who were under or becoming 60 years of age on 1 April 2017:

(a) For a member's Pre-existing Account with all accrued benefits being invested according to the Original Default Investment Arrangement which was generally resulted from no investment instruction being given on the existing accrued benefits (such member being a "**DIA member**")

If, as of 1 April 2017, the accrued benefits in a member's Pre-existing Account are only invested according to the Original Default Investment Arrangement, special rules and arrangements will be applied, in due course, to determine whether the accrued benefits in such account will be transferred to the DIS and whether the future contributions and accrued benefits transferred from another registered scheme for such account will be invested in DIS. If the member's Pre-existing Account is the one described above, a notice called the DIS Re-investment Notice (the "**DRN**") may be sent to the DIA member within six months from 1 April 2017 explaining the impact on such account and giving the DIA member an opportunity to give a specified investment instruction to the Trustee before the accrued benefits, future contributions and accrued benefits transferred from another registered scheme are invested into the DIS. If the Trustee is not aware of any contact details of the member that enable the Trustee to give the DRN, the Trustee will proceed to locate the member in the manner, and within the time limit, specified in the guidelines issued by the MPFA.

Members should note that the risk inherent in the arrangement, in particular, the risk of the Original Default Investment Arrangement under section 4 (*Risks*) may be different from that of the DIS. They will also be subject to market risks during the redemption and reinvestment process. The following table summarises the risk levels of each of the Original Default Investment Arrangement, the Principal Core Accumulation Fund and the Principal Age 65 Plus Fund:

Constituent fund	**Risk level (in terms of fluctuations in the value of assets of the constituent fund)**
Original Default Investment Arrangement	
Principal Cash Fund (prior to 10 January 2011)	Low
Principal – MPF Conservative Fund (on and after 10 January 2011 but before 1 April 2017)	Low
Constituent funds under the DIS	
Principal Core Accumulation Fund	Medium to high
Principal Age 65 Plus Fund	Low to medium

For details of the arrangement, members should refer to the DRN.

(b) For a member's Pre-existing Account which, as at 31 March 2017:

(i) had part of the accrued benefits in it invested in the Original Default Investment Arrangement (as a result of no valid investment instruction being given in respect of that part of the accrued benefits), or

(ii) had all of the accrued benefits in it invested in constituent funds other than the Original Default Investment Arrangement after scheme restructuring whereby all or any of the accrued benefits in the Pre-existing Account were transferred to the Pre-existing Account from an account in another registered scheme in a restructuring to which the MPFA consented under section 34B(5) of the MPF Ordinance, or

(iii) had all of the accrued benefits in it invested in the Original Default Investment Arrangement after fund termination,

unless the Trustee has received any Specific Investment Instructions, the member's accrued benefits as well as future contributions and accrued benefits transferred from another registered scheme paid to the member's Pre-existing Account on or after 1 April 2017 will be invested in the same manner as at 31 March 2017. Where the member's Pre-existing Account has zero balance as at 31 March 2017, if the Pre- existing Account would fall under either (i), (ii) or (iii) had there been accrued benefits in the Pre-existing Account as at 31 March 2017, unless the Trustee has received Specific Investment Instructions, future contributions and accrued benefits transferred from another registered scheme in the member's Pre-existing Account on and after 1 April 2017 will be invested in the manner as described under (i), (ii) or (iii) (as the case may be).

(c) For a Member's Pre-existing Account which, as at 31 March 2017, had all of the accrued benefits in it invested in constituent funds other than the Original Default Investment Arrangement for whatever reasons (e.g. as a result of switching instructions or accrued benefits from another account within the Plan being transferred to the Pre-existing Account) and no investment mandate has ever been given for the Pre-existing Account in respect of new contributions and accrued benefits transferred from another registered scheme, unless the Trustee has received any Specific Investment Instructions, the Member's accrued benefits will be invested in the same manner as they were invested as at 31 March 2017, while the future contributions and accrued benefits transferred from another registered scheme paid to the Member's Pre-existing Account on or after 1 April 2017 will be invested in the DIS.

6.6 Switching instructions

A member has the right to give a switching instruction (the minimum investment allocation in any constituent fund selected must be an integer percentage and 100% of the switch-out total must be invested in one or more constituent fund(s)) to switch all or part of his units in a constituent fund into units in another constituent fund by giving a duly completed change in investment form to the Trustee by way of hard copy submission (such as by way of mail or facsimiles) or by online submission via our website or email. For the avoidance of doubt, where a member switches all or part of his existing investments, such switching instruction only applies to existing investments and not the new contributions. Any switching instruction given after enrolment and not meeting the requirements for a Specific Investment Instruction will be rejected, and in that case, existing investment (in respect of the existing accrued benefits) will remain unchanged.

The cut-off time for handling valid switching instructions submitted by fax or through website is 4:00 p.m. on the relevant dealing day*. In order to ensure that the instruction can be processed on or prior to the intended effective date of the new switching instructions, members should refer to the "required time to complete (after the date of receipt of completed instruction)" relating to switching instructions as set out in the "Trustee Service Comparative Platform" in the MPFA's website before submitting the switching instruction. Any invalid switching instruction (e.g. the switch-in total is less than or exceeds 100% of the switch-out total) will be rejected and will not be processed.

* *If a valid switching instruction submitted by fax or through website is received by the Trustee before the cut-off time on a dealing day, it will be considered as received on the same day. If such switching instruction is received by the Trustee after the cut-off time on a dealing day, it will be deemed to have been received on the next dealing day. If the switching instruction is received by the Trustee at any time on a non-dealing day, it will be deemed to have been received before the cut-off time on the next dealing day.*

Units of a constituent fund ("**Existing Units**") will be switched into units of another constituent fund ("**New Units**") according to the bid price of the Existing Units (but in the case of the Principal Guaranteed Fund Policy, the proceeds of realisation of units in the insurance policy based APIF may be reduced by an amount determined at the Sponsor's absolute discretion, such reduction not exceeding 5% (or such higher percentage as decided by the Sponsor with the approval of the MPFA) of the account balance (or the relevant part of account balance) of the member in the insurance policy based APIF) and the offer price of the New Units on the relevant valuation dates (subject to any suspension in the determination of the net asset value of the relevant constituent fund). Pending the acquisition of New Units, the Trustee will hold the amounts received on the realisation of Existing Units in cash or on deposit. Unless the Sponsor determines otherwise, provided that the switching instruction is valid, the instruction will be implemented as soon as practicable.

6.7 Switching in and out of the DIS

Members can switch into or out of the DIS at any time, subject to the rules of the Plan. In particular, members may elect to not invest their future contributions and transfer-in benefits in the DIS while having the existing accrued benefits invested in the DIS, or vice versa. Partial switching in/out of the DIS is allowed. Members should, however, bear in mind that the DIS has been designed as a long-term investment arrangement. For the avoidance of doubt, the DIS will cease to apply to any accrued benefits withdrawn or transferred out of the Plan, whether or not the withdrawal is a partial withdrawal and regardless of the circumstances (e.g. refund/payment of statutory long service pay/severance pay). Accrued benefits invested in the DIS and remaining in the Plan will continue to be subject to the DIS. Also, members may change their investment mandate to invest in the DIS at any time.

If a member is an employee member and a personal account member and wishes to switch his accrued benefits and contributions under the account related to his employee member status into the DIS, such switching will only impact the account related to his employee member status and not the account related to his personal account member status.

6.8 Treatment of accrued benefits transferred from a contribution account to a personal account

Where a member ceases employment with a participating employer and:

6.8.1 in the absence of his election to transfer the accrued benefits from such employment as described in section 6.9.1 (*Transfers to other schemes*), and his accrued benefits from such employment are automatically transferred to a personal account upon the expiry of the three months' period after the Trustee has been notified of the termination of his employment, or

6.8.2 the member has given instruction to transfer the accrued benefits from such employment to a personal account and his accrued benefits are therefore transferred to the personal account,

the accrued benefits transferred from the member's contribution account to the member's personal account will be invested in the same manner as they were invested immediately before the transfer, and, unless the Trustee receives a Specific Investment Instruction from the member with regard to the member's personal account, any future contributions and accrued benefits transferred from another registered scheme may be invested in the DIS.

6.9 Transfers to and from other schemes

6.9.1 Transfers to other schemes

(a) Employers and employees

An employer may by notice in writing personally or through the transferee trustee to have amounts held for the accounts of its employees or its account under the Plan transferred to another registered scheme.

When an employee member ceases to be employed by his employer, such employee member may elect ("**Election**") (except in certain situations as specified by the MPF Ordinance, General Regulation, relevant codes and guidelines from time to time) to have amounts held for the account of the employee member under the Plan transferred to:

(i) another account in the Plan by notice in writing to the Trustee;

(ii) another MPF master trust scheme nominated by the employee member or an existing account of the employee member in an industry scheme by notice in writing to the transferee trustee; or

(iii) the registered scheme in which the employee member's new employer participates by notice in writing to the transferee trustee.

If the employee member fails to make an Election within three months after the Trustee has been notified by the employer, the employee member will be taken to have elected to transfer his accrued benefits concerned to a personal account of the Plan, in which case, all the accrued benefits will be so transferred within 30 days thereafter.

In the case of an election for the transfer of accrued benefits by an employee member who ceases to be employed by his employer, the transfer of accrued benefits shall be made within 30 days of receipt of a request for transfer or within 30 days after the last contribution day in respect of the employment that has ceased, whichever is the later.

(b) Self-employed persons/SVC members

A member who is a self-employed person or a SVC member may elect by notice in writing to the transferee trustee to have amounts held for the account of the member under the Plan transferred to:

(i) another MPF master trust scheme nominated by the member or an existing account of the member in an industry scheme;

(ii) where the member is subsequently employed by an employer, the registered scheme in which the member's employer participates; or

(iii) where a SVC member has made such election in respect of the amounts attributable to his special voluntary contributions, the registered scheme of his choice subject to the acceptance of such transfer by the trustee of the other registered scheme.

If a member has accrued benefits in a personal account of the Plan, such member may at any time transfer all such accrued benefits to a contribution account or another personal account of the Plan, or a contribution account of another registered scheme or a personal account of another registered scheme which is a master trust scheme or an industry scheme.

On receipt of a duly completed election form, the Trustee will realise the units in respect of the transfer and arrange for transfer in accordance with the MPF Ordinance, General Regulation, relevant codes and guidelines. In normal circumstances, the Trustee will effect a transfer within 30 days (or such other period specified by the MPF Ordinance, General Regulation, relevant codes and guidelines from time to time) of receipt of a duly completed election form. Transfers may be delayed in certain circumstances specified under the MPF Ordinance, General Regulation, relevant codes and guidelines, including where contributions are outstanding.

(c) General

Pending the transfer, the Trustee will hold the amount received on realisation of units relating to the transfer in cash or on deposit.

Any money paid to the Plan after the relevant member's accrued benefits have been transferred to another registered scheme under this sub-section (*Transfers to other schemes*) (e.g. outstanding contributions and contribution surcharge) will be transferred to the transferee registered scheme as soon as practicable and will not be invested.

6.9.2 Transfers from other schemes

The Trustee has power to accept transfers from other provident fund schemes in respect of a member. The Trustee will apply amounts received from other provident fund schemes (net of charges, if any) to acquire units in the constituent funds pursuant to the instructions of the member given in accordance with the Trust Deed within 14 business days (excluding any period of suspension in the determination of the NAV of any relevant constituent fund) following receipt of such amounts in cleared funds and information the Trustee may require. Pending the acquisition of units in the constituent funds, the Trustee will hold such amounts in cash or on deposit.

6.9.3 Employee choice arrangement – transfers into the Plan

If a person is a member of another registered scheme, he may transfer certain of his accrued benefits to the Plan, as described below.

(a) Transfers into the Plan – from former employment

If a person is an employee member of another registered scheme and has accrued benefits in a contribution account deriving from mandatory and voluntary contributions* made by the person or the employer in respect of the person's former employment or former self-employment, the person can have all such accrued benefits transferred to the Plan at any time by completing and returning to the Trustee the specified form as prescribed by the Trustee from time to time.

If a person is already a member of the Plan, the accrued benefits transferred in accordance with the above will be held in the member's contribution accounts or personal account as specified by the member. However, if the person is not a member of the Plan, he will have to become a personal account member and the accrued benefits will be held in his personal account under the Plan.

(b) Transfers into the Plan – from current employment

If a person is an employee member of another registered scheme and has accrued benefits in a contribution account deriving from the employee's mandatory and/or voluntary contributions* made in respect of his current employment, he can have all such accrued benefits transferred to the Plan by completing and returning to the Trustee the specified form as prescribed by the Trustee from time to time.

If a person is already a personal account member of the Plan, the accrued benefits transferred in accordance with the above will be held in his personal account. However, if the person is not a personal account member of the Plan, he will have to become a personal account member and the accrued benefits will be held in his personal account under the Plan.

* *Transfer of accrued benefits derived from voluntary contributions will be subject to the governing rules of the transferor registered scheme.*

(c) General

The accrued benefits that a person transfers to the Plan will be invested in the constituent fund(s) in accordance with his choice of constituent fund(s) and percentage allocated. There is no limit on the number of transfer payments that a person may make to the Plan.

No fees will be charged by the Trustee for the transfer of accrued benefits from another registered scheme to the Plan other than an amount representing the necessary transaction costs that are incurred, or reasonably likely to be incurred by the Trustee in selling or purchasing investments in order to give effect to the transfer and are payable to a party other than the Trustee. Any such amount of transfer fees and charges imposed and received by the Trustee will be used to reimburse the relevant constituent fund(s).

Please note that the above transfers in section 6.9.3(a) (*Transfers into the Plan – from former employment*) shall not apply in circumstances where an employee member ceases to be employed by his employer, in which case, section 6.9.1(a) (*Employers and employees*) above will apply.

6.9.4 Employee choice arrangement – transfers from the Plan

(a) Transfers from the Plan – from former employment

If a member has accrued benefits deriving from mandatory contributions of his former employment or former self-employment in the member's contribution account of the Plan, such member may at any time elect to have all such accrued benefits transferred to another contribution account or personal account of the Plan, a contribution account of another registered scheme or a personal account of another registered scheme, which is a master trust scheme or an industry scheme.

If a member wishes to transfer the accrued benefits to a personal account of the Plan in accordance with the above, but such member is not a personal account member of the Plan, he will have to become a personal account member and the accrued benefits will be held in his personal account under the Plan.

(b) Transfers from the Plan – from current employment

If a member has accrued benefits deriving from the employee's mandatory contributions of the member's current employment in his contribution account of the Plan, the member may at any time elect to have all such accrued benefits transferred to a personal account of the Plan or a personal account of another registered scheme, which is a master trust scheme or an industry scheme. However, a member may only make such a transfer once in every calendar year.

If a member wishes to transfer the accrued benefits to a personal account of the Plan in accordance with the above, but such member is not a personal account member of the Plan, he will have to become a personal account member and the accrued benefits will be held in his personal account under the Plan.

(c) General

No fees will be charged by the Trustee for the transfer of accrued benefits from the Plan to another registered scheme, or from an account to another account within the Plan as described above in this section 6.9.4 (*Employee choice arrangement – transfers from the Plan*) or in the same account within the Plan from a constituent fund to another constituent fund, other than an amount representing the necessary transaction costs that are incurred, or reasonably likely to be incurred by the Trustee in selling or purchasing investments in order to give effect to the transfer and are payable to a party other than the Trustee. Any such amount of transfer fees and charges imposed and received by the Trustee will be used to reimburse the relevant constituent fund(s).

6.10 Benefits

6.10.1 Entitlement to accrued benefits derived from mandatory contributions

Accrued benefits derived from mandatory contributions will become payable in the circumstances set out in the MPF Ordinance, General Regulation, relevant codes and guidelines. Currently, these circumstances relate to where the member:

(a) reaches the retirement age of 65;

(b) attains the age of 60 and retires early;

(c) permanently departs from Hong Kong;

(d) becomes totally incapacitated;

(e) suffers from terminal illness (i.e. an illness that is likely to reduce the life expectancy of the member to 12 months or less);

(f) dies; or

(g) has a small balance account not exceeding HKD5,000.

The accrued benefits payable in respect of a member derived from mandatory contributions shall be the aggregate of all balances of mandatory contributions paid by or in respect of the member. Such balances will reflect the value of units of the relevant constituent funds acquired with such contributions, after taking into account charges and investment performance.

6.10.2 Entitlement to accrued benefits derived from voluntary contributions

A member will become entitled to receive accrued benefits derived from voluntary contributions in the circumstances set out in the Trust Deed and the schedule to the relevant participation agreement. In particular, a member who is a self-employed person is entitled to receive accrued benefits derived from his member's voluntary contributions at any time.

The accrued benefits payable in respect of a member derived from voluntary contributions shall be the aggregate of all balances of voluntary contributions paid by the member and (if applicable) the vested portion of all balances of voluntary contributions paid by the employer of the member. Such balances will reflect the value of units of the relevant constituent funds acquired with such contributions, after taking into account charges and investment performance.

6.11 Withdrawal of accrued benefits derived from special voluntary contributions

A member who has made special voluntary contributions to the Plan may at any time withdraw all or part of his special voluntary contribution balance by giving at least one month's prior notice to the Trustee (or such shorter notice period as the Trustee may agree). Withdrawals of special voluntary contribution balance are subject to the terms and conditions prescribed by the Trustee in the Trust Deed, this MPF Scheme Brochure and any other relevant forms. These include the following:

- withdrawals are limited to six withdrawals per calendar year
- the minimum withdrawal amount per request is HKD5,000
- for members who made lump sum special voluntary contributions on an ad hoc basis, a minimum balance of HKD5,000 is required to be maintained after each withdrawal
- application for withdrawal is to be made in the form specified by the Trustee from time to time
- where members have invested their special voluntary contributions in the Principal Guaranteed Fund, withdrawal will be subject to certain conditions. The guarantee under the Principal Guaranteed Fund applies only in respect of the occurrence of any of the following withdrawal events:

  (a) death;

  (b) retirement or early retirement;

  (c) total incapacity;

  (d) terminal illness;

  (e) permanent departure from Hong Kong; and

  (f) termination of the insurance policy based APIF by the Sponsor.

In respect of the withdrawal events in paragraphs (a) to (d) above, please refer to the guarantee features and conditions in Scenario (a) of Appendix 1 (*Insurance policy based APIF*) and in respect of the withdrawal events in paragraphs (e) and (f) above, please refer to the guarantee features and conditions in Scenario (b) of Appendix 1 (*Insurance policy based APIF*). No guarantee shall be applied upon the occurrence of any other events specified under Scenario (b) and any events specified under Scenario (c) of Appendix 1 (*Insurance policy based APIF*).

Any accrued benefits attributable to the special voluntary contributions of a member shall become payable to the member upon that member's cessation of participation in the Plan.

6.12 Realisation of units

Where accrued benefits are payable in respect of a member, the Trustee will realise all the units in the constituent funds held to the account of the member in respect of the accrued benefits and pay the accrued benefits in accordance with the MPF Ordinance, General Regulation, relevant codes and guidelines and the Trust Deed.

Units in a constituent fund realised on a valuation date will be realised at the bid price of such units. The calculation of the bid price of units is set out in section 7.3 (*Calculation of offer and bid prices of constituent funds*).

Realisation of units will be suspended and payment of accrued benefits will be delayed where the determination of the NAV of the relevant constituent fund is suspended (for further details, see section 7.2 (*Suspension of determination of NAV and issuance and realisation of units*)).

Pending payment of accrued benefits, the Trustee will hold the amounts received on realisation of units in cash or on deposit.

In addition, with a view to protecting the interests of members, the Trustee is entitled to limit the number of units of any constituent fund realised on any valuation date to 10% of the total number of units in that constituent fund in issue. In this event, the limitation will apply pro rata so that all members wishing to realise units in that constituent fund on that valuation date will realise the same proportion of such units and units not realised (but which would otherwise have been realised) will be carried forward for realisation, subject to the same limitation, on the next valuation date.

6.13 Payment of accrued benefits

6.13.1 Mandatory contributions

Accrued benefits derived from mandatory contribution will be paid as soon as reasonably practicable and in any event within 30 days (or such other period specified by the MPF Ordinance, General Regulation, relevant codes and guidelines from time to time) after the date the Trustee receives the claim for payment in a duly completed specified form. Payment may be delayed for up to 60 days (or such other period specified by the MPF Ordinance, General Regulation, relevant codes and guidelines from time to time) in certain circumstances pursuant to the MPF Ordinance, General Regulation, relevant codes and guidelines, including where contributions in respect of the relevant member remain outstanding.

Where the member (i) reaches the retirement age of 65, or (ii) attains the age of 60 and retires early, the member may apply for withdrawal of all or part of his mandatory contributions by completing and sending to the Trustee a duly completed specified form and subject to such terms as the Trustee may, subject to the applicable provisions of the MPF Ordinance or the General Regulation, from time to time prescribe. The member may specify the withdrawal amount he wishes to withdraw by submitting to the Trustee the relevant claim form which can be downloaded from the Trustee's website at www.principal.com.hk. The withdrawal charge payable in respect of each withdrawal can only include necessary transaction costs incurred or reasonably likely to be incurred in selling or buying investments in order to give effect to the withdrawal and are payable to a party other than the Trustee. In particular, if the member chooses to have the accrued benefits to be paid to his bank account directly, bank charges may apply to the member's bank account.

Where a member invests in the Principal Guaranteed Fund and retires at the age of 65 or early retires at the age of 60, regardless of whether he opts for payment of accrued benefits in instalments, guarantee will apply to any amount withdrawn from the Principal Guaranteed Fund until his balance in the Principal Guaranteed Fund becomes zero. Guarantee fee will continue to apply for members who remain investing in the Principal Guaranteed Fund.

6.13.2 Voluntary contributions

Accrued benefits derived from voluntary contributions will be paid at the same time as the accrued benefits in relation to the mandatory contributions are paid. If no accrued benefits in relation to mandatory contributions will be paid, accrued benefits in respect of voluntary contributions will be paid as soon as reasonably practicable within 30 days after the date the Trustee receives the claim for payment in a duly completed specified form. Payment may be delayed for up to 60 days if contributions in respect of the relevant member remain outstanding.

6.13.3 Special voluntary contributions

After a withdrawal request is accepted, accrued benefits in respect of special voluntary contributions will be paid to the relevant member as soon as reasonably practicable within 30 days. Payment will be made in such manner as determined by the Trustee. Upon a member terminating the relevant account in respect of his special voluntary contributions, the accrued benefits in such account may either be withdrawn or be transferred to other registered schemes subject to the acceptance of such transfer by the trustee of the other registered scheme.

6.13.4 General

Accrued benefits will be paid in HKD to the relevant recipient by cheque or telegraphic transfer. Bank charges (if any) incurred in making payment will be borne by the relevant recipient and accordingly will be deducted from the amount of the benefits.

Upon payment of such accrued benefits to or in respect of the member, the Trustee shall have no further liabilities or obligations whatsoever in relation to such accrued benefits.

7. OTHER INFORMATION

7.1 Determination of NAV

The value of each constituent fund and offer and bid prices shall be determined as at the close of business in the last relevant market to close (or such other time as may be agreed between the Trustee and the Sponsor) on each valuation date by the Trustee subject, among others, to the following:

(a) the value of any unit, share or other interest in a collective investment scheme shall (except in limited circumstances) be calculated by reference to the latest available net asset value per unit, share or other interest of such collective investment scheme (where available) or (if the same is not available) the latest available bid price for such unit, share or other interest;

(b) the value of any investment not included in paragraph (a) above (excluding any commodity) which is listed, quoted or normally dealt in on a securities market shall (except in limited circumstances) be calculated by reference to the last closing price of such investment or (if no such price is available) midway between the latest available market dealing offer price and the latest market dealing bid price;

(c) amounts expressed in currencies other than HKD shall be converted to HKD at such prevailing rates of exchange as the Trustee and Sponsor shall consider appropriate; and

(d) notwithstanding the foregoing, the Trustee may adjust the value of any asset or permit some other method of valuation to be used if, having regard to currency, applicable rate of interest, maturity, marketability and other considerations the Trustee deems relevant, the Trustee considers that such adjustment or use of such other method is required to reflect the fair value thereof.

Units in constituent funds shall be issued and realised on the appropriate valuation date. The valuation date shall be such date as the Trustee and the Sponsor shall determine in respect of each constituent fund.

7.2 Suspension of determination of NAV and issuance and realisation of units

Subject to the MPF Ordinance, General Regulation, relevant codes and guidelines, the Trustee may declare a suspension of the determination of the NAV of any constituent fund:

(a) during any period when any securities market or commodities market on which any of the investments for the time being held for the account of the constituent fund is quoted is closed otherwise than for ordinary holidays;

(b) during any period when any dealing on any such securities market or commodities market are restricted or suspended;

(c) during the existence of any state of affairs as a result of which acquisition or disposal of investments for the time being comprised in the constituent fund cannot in the opinion of the Trustee be effected normally;

(d) during any breakdown in the means of communication normally employed in determining the NAV of the constituent fund or part thereof or the offer price or bid price of units or when for any other reason the value of any investment for the time being comprised in the constituent fund and representing a significant part of the value thereof cannot in the opinion of the Trustee be promptly and accurately ascertained;

(e) during any period when the acquisition or realisation of any investment for the time being comprised in the constituent fund or the transfer of funds involved in such acquisition or realisation cannot be effected at normal prices or normal rates of exchange respectively; or

(f) during any period in which the determination of the NAV of the APIF/ITCIS in which the constituent fund invests is suspended.

There shall be no determination of the NAV of the constituent fund and no units in the constituent fund may be issued, realised or switched during such period of suspension. In addition, no units in the constituent fund may be issued, realised or switched during such period required for the purpose of implementing any reorganisation of the Plan which involves a change of Trustee, Sponsor, custodian, Administrator, any investment manager or investment manager of any APIF/ITCIS. The suspension shall continue until with the agreement of the Sponsor, the Trustee declares the suspension at an end.

7.3 Calculation of offer and bid prices of constituent funds

The NAV per unit in a constituent fund is calculated by valuing the assets of that constituent fund, deducting the liabilities attributable to the relevant constituent fund and dividing the resultant sum by the number of units of the fund in issue.

The offer price of a unit in a constituent fund on a valuation date is the aggregate of a preliminary charge and NAV per unit rounded down to seven decimal places plus an allowance for fiscal and purchase charges which might be payable to buy investments for the account of the relevant constituent fund.

The bid price of a unit in a constituent fund on a valuation date is the net asset value per unit rounded down to seven decimal places less an allowance for fiscal and sale charges which might be payable to sell investments for the account of the relevant constituent fund.

If from the time the bid price is calculated up to the time the proceeds of realisation are converted from any other currency to HKD, there is an officially announced devaluation of that other currency, the proceeds shall be reduced as the Trustee and the Sponsor shall consider appropriate.

7.4 Publication of prices

The offer price and bid price of a unit in each constituent fund will normally be published daily in the South China Morning Post and Hong Kong Economic Times.

7.5 Calculation of offer and bid prices of the APIFs and ITCIS

7.5.1 General

Each APIF and ITCIS in which the constituent funds invest, other than the Principal Guaranteed Fund Policy, will have its own methodology in relation to calculation of offer and bid prices.

7.5.2 Principal Guaranteed Fund Policy

Under the terms of the Principal Guaranteed Fund Policy, the offer price of a unit in the insurance policy based APIF on a valuation date shall be the aggregate of a preliminary charge and the bid price of a unit on the valuation date rounded down to seven decimal places. A preliminary charge of currently up to 3% of the offer price may be levied by the Sponsor. Currently, no preliminary charge is levied.

The bid price of a unit in the Principal Guaranteed Fund Policy on a valuation date shall be the bid price of a unit on the preceding valuation date as increased by such rate as determined by the Sponsor in its absolute discretion rounded down to seven decimal places. In determining such rate of increase, the Sponsor may consider various matters including actual return, value and nature of assets, the level of the guarantee, investment and operating expenses, market conditions and taxes.

For the avoidance of doubt, the Reserved Fund will not be taken into account in the determination of: (i) the bid price and the offer price of a unit in the insurance policy based APIF; (ii) the Declared Crediting Rate; and (iii) any fees and charges payable under the insurance policy based APIF. The Reserved Fund forms part of the insurance policy based APIF. The definition of "**Reserved Fund**" can be found in Appendix 1 (*Insurance policy based APIF*).

7.6 Taxation

The following statements regarding taxation are based on advice received by the Sponsor regarding the law and practice in force in Hong Kong at the date of this MPF Scheme Brochure.

Employers and members should appreciate that as a result of changing law or practice, the taxation consequences of participating in the Plan may be otherwise than as stated below. This summary is not intended to be comprehensive and should not be relied upon as a substitute for detailed and specific advice. Employers and members should seek professional advice regarding their particular tax circumstances.

7.6.1 For employers

Provided that they are not excessive in all the circumstances, initial and special lump sum contributions are allowable for profits tax purposes in five equal installments over five years.

Annual contributions made by the employer in respect of an employee of up to 15% of the total emoluments of such employee are allowable as a deduction for profits tax purposes. Excess contributions are not deductible.

Refunds of voluntary contributions to the employer will be treated as taxable receipts in the hands of the employer for profits tax purposes. Forfeited voluntary contributions are permitted to revert to the Plan to be used to reduce contributions liability of the employer or, alternatively, to increase the benefits available to employees.

7.6.2 For employees

Salaries tax is not payable on the portion of any payment that represents either the employee's contributions or the investment earnings of the Plan on those contributions (including special voluntary contributions).

The employer's contributions are not taxable on the employee. For salaries tax purposes, a deduction from salary is allowed for the amount of the employee's mandatory contributions into the Plan (up to the statutory maximum amount). However, employees will remain liable to salaries tax on voluntary contributions they make into the Plan.

Lump sum accrued benefits on retirement, incapacity, death or terminal illness are not subject to salaries tax. "**Retirement**" for tax purposes is defined to mean:

(a) Retirement from the service of the employer at a specified age of not less than 45 years;

(b) Retirement after a period of service with the employer of not less than 10 years; or

(c) Attainment of a specified age of retirement or 60 years, whichever is later (whether or not the employee has in fact retired from his employment at such age).

If an employee leaves service otherwise than on retirement, incapacity, death, or terminal illness, a proportion of the employee's accrued benefits paid deriving from his employer's voluntary contributions may be subject to salaries tax.

7.6.3 For self-employed persons

Mandatory contributions paid into the Plan by self-employed persons (up to the statutory maximum amount) may be deducted from assessable profits for determining the liability of those persons to profits tax.

Profits tax is not payable on the portion of any benefits that represents either the self-employed person's contributions or the investment earnings of the Plan.

7.6.4 For the Plan

The Plan is not expected to be subject to Hong Kong tax in respect of any of its authorised activities.

7.7 Reserve account

Whenever an employee member is paid less than 100% of the employer's voluntary contribution balance held in respect of him, the balance is credited to a reserve account established for the employer within the Plan.

Upon request by the employer and provided that the request complies with the minimum amount or percentage specified, monies in the reserve account can be used to pay fees and charges, offset future employer's contributions, increase accrued benefits of members through distribution to members or be refunded to the employer.

The Trustee will comply with such request within one month (excluding any period of suspension in determination of the NAV of the relevant constituent fund) from the date of receiving such request and information required by the Trustee.

The balance of the reserve account is automatically invested in the default fund designated by the Trustee with the agreement of the Sponsor from time to time, currently the Principal – MPF Conservative Fund.

The Trust Deed has equivalent provisions for a self-employed member.

7.8 Automatic exchange of financial account information

Financial institutions in Hong Kong and many other jurisdictions are required to identify account holders who are reportable foreign tax residents under the laws, regulations and international agreements for the implementation of automatic exchange of financial account information ("**AEOI**"), and report the information of account holders and controlling persons of certain entity account holders (each, a "**controlling person**") (including but not limited to their names, addresses, dates of birth, places of birth/incorporation, jurisdiction(s) of tax residence, tax identification number(s) in the relevant jurisdiction(s)) and account information (including but not limited to their account balance, income, and payments to the account holders) (collectively, the "**Reportable Information**") to the local tax authority where the financial institutions operate. The local tax authority, in respect of a reportable foreign tax resident, will provide the Reportable Information of the reportable foreign tax resident to the tax authority(ies) of the country(ies) and jurisdiction(s) of tax residence of the reportable foreign tax resident on a regular, annual basis. If you are not a tax resident in any jurisdiction outside Hong Kong, your MPF account information will not be reported to the Hong Kong Inland Revenue Department ("**IRD**") for transmission to any tax authority outside Hong Kong.

The Plan is a Hong Kong financial institution for AEOI purposes. As required under AEOI of Hong Kong, the Trustee will use for the purposes of AEOI the Reportable Information of any individual or entity, whether in the capacity as a member, participating employer or beneficiary, that is considered under AEOI to be an account holder or controlling person of an account holder (where applicable). The Reportable Information may be transmitted to the IRD for transfer to the tax authority of another jurisdiction.

The Trustee may, to the extent not prohibited by applicable law including AEOI, engage, employ or authorise any individual or entity (including but not limited to third-party service providers, the Trustee's affiliates, subsidiaries, associated entities, and any of their branches and offices) (each, for purposes of this section, an "**authorised person**") to assist the Plan with the fulfilment of its obligations under AEOI, and to act on the Plan's behalf in relation to its obligations under AEOI. The Trustee and its authorised persons may share with each other any information of any account holder or controlling person of an account holder (where applicable) of the Plan.

The Trustee and/or any of its authorised person(s) may require any account holder under AEOI to provide a valid self-certification form and such other information (including the Reportable Information and any documentary evidence) which the Trustee and/or any of its authorised person(s) may require from time to time for the implementation of AEOI (collectively, the "**Required Information**"). In addition, where the account holder is an entity, the Trustee and/or its authorised person(s) may require the Required Information of its controlling person(s).

Where required by AEOI and to the extent not prohibited by applicable law, the Trustee will not accept any applicant to the Plan or make any payment to any account holder (whether in the capacity of a member, a participating employer or a beneficiary) before receiving the Required Information. Account holders and controlling persons must update the Trustee and/or any of its authorised person(s) about any changes in the information they have previously provided to the Trustee and/or any of its authorised person(s) within 30 days of such change. If the Trustee and/or any of its authorised person(s) do not receive the Required Information in respect of an account holder or a controlling person, the Trustee and/or any of its authorised person(s) may be required to report such person based on the information they have.

Members, participating employers, and any other account holders and controlling persons should consult their own tax advisers regarding the possible implications of AEOI on their participation and holding interests in the Plan and the information that may be required to be provided and disclosed to the Trustee and/or any of its authorised person(s), and where applicable, to the IRD and other tax authorities. The application of the AEOI rules and the information that may be required to be reported and disclosed are subject to change. Please see the IRD website (https://www.ird.gov.hk/eng/tax/dta_aeoi.htm) for more information about AEOI in Hong Kong. Any discussion of tax considerations herein is not intended or written to be tax advice to any person and is not intended or written to be used, and cannot be used, by any person for the purpose of avoiding any domestic or foreign tax penalties that may be imposed on such person.

7.9 Treatment of interest

Any amount held by the Trustee pending acquisition of units, payment or transfer will be held in cash or on deposit. If any amount is placed on deposit, the Trustee will ensure that the rate of interest received for the deposit is reasonable. The interest earned will be used for the payment of any administrative expenses of the Plan or such other purpose as permitted by the MPF Ordinance, General Regulation, relevant codes and guidelines from time to time.

7.10 Trust Deed

All members and participating employers are entitled to the benefit of, are bound by and are deemed to have notice of the provisions of the Trust Deed.

The Trust Deed contains provisions for the indemnification of the Trustee, the Sponsor and their delegates and agents and their relief from liability in certain circumstances. Members, participating employers and intending applicants are advised to review the Trust Deed.

The Principal Guaranteed Fund Policy also contains similar provisions for the indemnification of the Sponsor and its delegates and agents and their relief from liability in certain circumstances. In the event of any conflict between any of the provisions of this MPF Scheme Brochure and the provisions of the Principal Guaranteed Fund Policy, the provisions of the Principal Guaranteed Fund Policy prevail.

7.11 Modification of Trust Deed and participation agreement

Subject to the MPF Ordinance, General Regulation, relevant codes and guidelines, the Trustee and the Sponsor may agree to modify the Trust Deed by supplemental deed (including to give effect to any relaxation or release of any requirement imposed by the MPF Ordinance, General Regulation, relevant codes and guidelines or official requirements relating thereto), either generally so as to apply to all employers and members or so as to apply specifically to a particular member or members or a particular employer or employers and members employed by such employer or employers.

Subject to the MPF Ordinance, General Regulation, relevant codes and guidelines, the Trustee and the relevant employer (or member in the case of a self-employed person), may agree to modify the participation agreement (and/or the schedule) applicable to that employer (or self-employed person) and members employed by that employer by supplemental agreement.

Any modifications to the Trust Deed or the participation agreement will be notified to the relevant employers and members.

7.12 Merger, division or termination of the Plan

Subject to the MPF Ordinance, General Regulation, relevant codes and guidelines, the Plan may be merged with one or more other schemes or sub-divided into two or more other schemes or terminated. Three months' notice (or such shorter notice period as agreed with the SFC and the MPFA) will be given to relevant employers and members.

7.13 Accounts, reports and statements

Before joining the Plan, an employee will be given information about the Plan to facilitate his application. Within 60 days after he joins the Plan, he will also be given a notice of participation including the particulars as required by the General Regulation.

As soon as practicable after each accounting period of the Plan, the Trustee will prepare a consolidated report consisting of:

- the audited accounts of the Plan;
- the Trustee's report on the Plan for the relevant accounting period.

This consolidated report will be open for inspection by members free of charge at any time during normal business hours on any business day at the office of the Sponsor in Hong Kong (30/F Millennium City 6, 392 Kwun Tong Road, Kwun Tong, Hong Kong).

The Trustee will send each member a member's statement within three months of the end of the accounting period of the Plan. The member's statement will include (i) details of the contributions to the Plan in respect of the member during the year, (ii) units held for the account of the member in each relevant constituent fund and (iii) the value of the accrued benefits of the member under the Plan as at the start and end of the relevant accounting period.

Any notice or other document to be given to an employee member may be forwarded to the employer for transmission to the employee member and in that case shall be deemed to have been duly served on the employee member.

7.14 Documents available for inspection

Copies of the Trust Deed and the latest consolidated report for the Plan (if any) are available for inspection free of charge at any time during normal business hours on any business day at the office of the Sponsor in Hong Kong (30/F Millennium City 6, 392 Kwun Tong Road, Kwun Tong, Hong Kong).

Intending participants are welcome to call our customer service hotline at 2802 2812/2885 8011.

8. GLOSSARY

"accounting period"	means a 12 months' period ending on 31 December.
"Administrator"	means Principal Trust Company (Asia) Limited.
"APIF"	means a collective investment scheme approved by the MPFA pursuant to the MPF Ordinance for investment by registered schemes.
"business day"	means a day, other than a Saturday or Sunday, on which banks are open for business in Hong Kong.
"China A-Shares"	means the stock shares of PRC-based companies that trade on the Shanghai Stock Exchange or the Shenzhen Stock Exchange.
"CIBM"	means the China Interbank Bond Market.
"constituent fund"	means each constituent fund provided under section 3.2 (*Table for constituent funds*).
"DIS"	means the default investment strategy that complies with part 2 of Schedule 10 to the MPF Ordinance.
"DIS CFs"	means each of the Principal Core Accumulation Fund and the Principal Age 65 Plus Fund.
"General Regulation"	means the Mandatory Provident Fund Schemes (General) Regulation (Cap. 485A of the laws of Hong Kong).
"Greater China"	means People's Republic of China, Hong Kong, Macau and Taiwan.
"higher risk assets"	has the meaning given to it in the MPF Ordinance, and generally means equities or similar investments (such as global equities).
"HKD"	means Hong Kong dollars.
"Hong Kong"	means the Hong Kong Special Administrative Region of the People's Republic of China.
"Index Shares"	means shares of constituent companies of the Hang Seng Index.
"ITCIS"	means an index-tracking collective investment scheme, as defined in section 1(1) of Schedule 1 to the General Regulation, approved by the MPFA for the purposes of section 6A of Schedule 1 to the General Regulation.
"lower risk assets"	means those assets not being higher risk assets, including without limitation global bonds and money market instruments.
"MPF Ordinance"	means the Mandatory Provident Fund Schemes Ordinance (Cap. 485 of the laws of Hong Kong).
"MPF Scheme Brochure"	means this MPF Scheme Brochure of the Plan, as amended from time to time.
"MPFA"	means the Mandatory Provident Fund Schemes Authority.
"NAV"	means net asset value.
"Original Default Investment Arrangement"	means prior to 10 January 2011, the Principal Cash Fund, and on or after 10 January 2011 but before 1 April, 2017, the Principal – MPF Conservative Fund.

"PAM"	means Principal Asset Management Company (Asia) Limited.
"Plan"	means the Principal MPF – Smart Plan.
"PRC"	means the People's Republic of China.
"Reference Portfolio"	means, in respect of each of the DIS CFs, the MPF industry developed reference portfolio adopted for the purpose of the DIS to provide a common reference point for the performance and asset allocation of the Principal Core Accumulation Fund and the Principal Age 65 Plus Fund (as the case may be).
"RMB"	means Renminbi, the official currency of the PRC.
"SFC"	means the Securities and Futures Commission.
"Specific Investment Instruction"	means: (i) an instruction for investment allocations, which meets the following requirements: – the minimum investment allocation in any constituent fund selected must be 5%; – must be an integer (e.g. 6% and not 6.5%); and – the total (or in the case of any switching instruction, the switch-in total) must be 100%; or (ii) any confirmation by a member (whether made verbally or through hard copy submission, online submission or email) with regard to any investment arrangements of the existing accrued benefits and/or future contributions and accrued benefits transferred from another scheme. The Specific Investment Instruction for employer's mandatory and voluntary contributions may be different from the Specific Investment Instruction for employee's mandatory and voluntary contributions or special voluntary contributions. Any investment mandate, change of investment mandate or switching instruction must meet the requirements for a Specific Investment Instruction.
"Sponsor"	means Principal Insurance Company (Hong Kong) Limited.
"Stock Connect"	means the cross-boundary investment channel that connects the PRC markets and the Stock Exchange.
"Stock Exchange"	means The Stock Exchange of Hong Kong Limited.
"SVC member"	means a person who wish to make special voluntary contributions.
"TraHK"	means the Tracker Fund of Hong Kong.
"Trust Deed"	means a master trust deed constituting the Plan, as amended from time to time.
"Trustee"	means Principal Trust Company (Asia) Limited.
"USD"	means US dollar, the official currency of the United States.
"valuation date"	for each constituent fund, means each business day.

APPENDIX 1 – INSURANCE POLICY BASED APIF

(a) Definition

The following terms have the following meanings in this MPF Scheme Brochure:

"**Adjusted Balance**" means the Guaranteed Balance of a member after applying a reduction. The rate of reduction is determined by the Sponsor having regard to various factors including market conditions, the level of guarantee being provided by the Sponsor and market value of the underlying assets of the insurance policy based APIF, and can be changed by the Sponsor at any time without prior notice. The rate of reduction will not exceed 5% (or such higher percentage as decided by the Sponsor with the approval of the MPFA) of the account balance (or the relevant part of the account balance) of the member in the insurance policy based APIF. The investments realised in respect of members resulting from the same reason on the same valuation date will be subject to the same extent of the reduction. For the latest reduction rate, please call our customer service hotline at 2802 2812/2885 8011.

"**Declared Crediting Rate**" means a rate which will not be less than 0% p.a., as determined by the Sponsor at its absolute discretion and will be reviewed regularly by the Sponsor having regard to various matters including actual return, value and nature of assets of the insurance policy based APIF, the level of guarantee being provided by the Sponsor, investment and operating expenses, market conditions and taxes. Upon any change of the Declared Crediting Rate, the new rate will be applied to the Guaranteed Balance on a prospective basis without prior notice. The Declared Crediting Rate for the past five years can be found in Appendix 2 (*Declared Crediting Rate*). For the latest Declared Crediting Rate, please refer to the fund fact sheet which is available on website at www.principal.com.hk or call our customer service hotline at 2802 2812/2885 8011.

"**Guaranteed Balance**" means the amount in HKD invested by a member in the insurance policy based APIF (net of contribution charges and offer spread, if any, as set out in the fee table in section 5.1 (*Fee table*) for that member accrued with the relevant Declared Crediting Rate on a daily basis.

"**Reserved Fund**" means a reserve fund maintained by the Sponsor in respect of the insurance policy based APIF. The Reserved Fund will be used to meet the Sponsor's obligations in the event where the NAV of the insurance policy based APIF is insufficient to discharge its obligations to pay the Guaranteed Balance payable under the insurance policy based APIF. Other than the aforesaid, members will not have any interest whatsoever in the Reserved Fund.

(b) Features of Guarantee

Scenario (a)

Upon the occurrence of any one of the following withdrawal events in which the member's accrued benefits become payable under section 15 of the MPF Ordinance, the Sponsor guarantees that the amount payable under the insurance policy based APIF for the member shall be the Guaranteed Balance:

- death;
- retirement or early retirement;
- total incapacity; or
- terminal illness (i.e. an illness that is likely to reduce the life expectancy of the member to 12 months or less).

Scenario (b)

Upon the occurrence of any one of the following events, the Sponsor guarantees that the amount payable under the insurance policy based APIF for the member shall be the greater of the amount in HKD invested in the insurance policy based APIF (net of contribution charges and offer spread, if any as set out in the fee table in 5.1 (*Fee table*)) for that member and the Adjusted Balance:

- termination of the insurance policy based APIF by the Sponsor;

- termination of employment of the member with or without payment of severance payment or long service payment out of accrued benefits derived from the employer's voluntary or mandatory contributions;

- circumstances set out in the MPF Ordinance, General Regulation, relevant codes and guidelines in which accrued benefits derived from mandatory contributions are payable in respect of the member's permanent departure from Hong Kong or a small balance account; or

- intra-group employment transfer which results in the transfer of the member to another registered scheme.

Scenario (c)

No guarantee shall be applied upon the occurrence of any one of the following events and the amount payable under the insurance policy based APIF for the member shall be the Adjusted Balance:

- the member switches all or part of the amount invested in the Principal Guaranteed Fund to another constituent fund;

- the member elects to have amount held for his account under the Plan transferred to other provident fund scheme; or

- the employer terminates its participation in the Plan.

If a member is currently investing in the Principal Guaranteed Fund, a transfer of the accrued benefits between different accounts of the member within the Plan (without transferring out of the Principal Guaranteed Fund and/or the Plan) will not have any impact on the member's entitlement to the guarantee offered under the Principal Guaranteed Fund. A member's entitlement to the guarantee offered under the Principal Guaranteed Fund will only be affected upon the occurrence of any of the withdrawal events described in Scenario (b) or Scenario (c) above.

Dilution of Performance:

There will be a dilution of performance due to the guaranteed structure in place. A guarantee fee may be imposed under the insurance policy based APIF to cover the cost of guarantee. The Sponsor, as the issuer of the insurance policy based APIF, is entitled to receive out of the insurance policy based APIF each month a monthly guarantee fee currently up to 1% p.a. of the NAV of the insurance policy based APIF.

The Sponsor has the right to retain investment income in respect of the insurance policy based APIF in excess of that required to be set aside to meet the guarantee under the insurance policy based APIF. Please refer to section 7.5 (*Calculation of offer and bid prices of the APIFs and ITCIS*) in respect of the insurance policy based APIF.

Examples of the way the guarantee works in respect of a member's account in the Principal Guaranteed Fund:

Situation	Column 1 Amount invested in the insurance policy based APIF (net of Contribution charges and Offer spread, if any) HKD	Column 2 Guaranteed Balance in the insurance policy based APIF HKD	Column 3 Adjusted Balance in the insurance policy based APIF HKD
A	10,000	10,400	10,400
B	10,000	10,400	10,192
C	10,000	10,400	9,880

A, B and C are situations where the rate of reduction as determined by the Sponsor is 0%, 2% and 5% of the account balance respectively. Column 2 is the situation where a Declared Crediting Rate at 4% p.a. is applied to the amount invested set out in Column 1.

Scenario (I)

In the event of death, retirement, early retirement, total incapacity or terminal illness where the amount payable under the insurance policy based APIF in respect of the member shall be the Guaranteed Balance (Column 2), the amount payable in situations A, B and C shall be the same: HKD10,400.

Scenario (II)

In the event such as termination of employment of a member where the amount payable under the insurance policy based APIF for the member shall be the greater of the (i) amount invested in the insurance policy based APIF (net of contribution charges and offer spread, if any) (Column 1), and (ii) the Adjusted Balance (Column 3), the amount payable

- in situation A shall be HKD10,400 (Column 3)
- in situation B shall be HKD10,192 (Column 3)
- in situation C shall be HKD10,000 (Column 1)

Scenario (III)

In the event such as switching of all of the amount invested in the Principal Guaranteed Fund to another constituent fund where no guarantee shall be applied and the amount payable under the insurance policy based APIF in respect of the member shall be the Adjusted Balance (Column 3), the amount payable

- in situation A shall be HKD10,400
- in situation B shall be HKD10,192
- in situation C shall be HKD9,880

The examples shown above are for illustrative purposes only and are not based on past performance or indicative of future returns.

The Principal Guaranteed Fund is a non-unitised constituent fund and the use of units is for administrative purpose only. The calculation of offer and bid prices of a unit of the Principal Guaranteed Fund and the insurance policy based APIF is not based on the value of assets held in respect of the insurance policy based APIF.

APPENDIX 2 – DECLARED CREDITING RATE

The Declared Crediting Rate in respect of the Principal Guaranteed Fund.

Date	Declared Crediting Rate
29.07.2002 – 10.07.2006	1% p.a.
11.07.2006 – 11.12.2006	3% p.a.
12.12.2006 – 01.10.2013	4% p.a.
02.10.2013 – 31.12.2015	3% p.a.
01.01.2016 – 31.03.2020	1% p.a.
From 01.04.2020 onwards	0.25% p.a.

From 01.12.2015 onwards, the rate of reduction for the Principal Guaranteed Fund is maintained at 0%.

Investment involves risk. Past performance information presented is not indicative of future performance.

APPENDIX 3 – ILLUSTRATIVE EXAMPLE ON THE PRINCIPAL – MPF CONSERVATIVE FUND

This example is intended to help you compare the total amounts of annual fees and charges payable under the Plan with those under other registered schemes.

This example assumes that:

Your MPF Account Activities

(a) your monthly relevant income is HKD8,000.

(b) you have put all your accrued benefits into the Principal – MPF Conservative Fund; you have not switched your accrued benefits to other constituent funds during the financial period.

(c) you have not transferred any accrued benefits into or out of the Plan during the financial period.

Your Company Profile

(d) five employees (including yourself) of your employer participate in the Plan.

(e) the monthly relevant income of each employee is HKD8,000.

(f) no voluntary contribution is made.

(g) each of the other four employees has the same MPF account activities as yours.

Investment Return and Savings Rate

(h) the monthly rate of investment return is 0.5% on total assets.

(i) the prescribed savings rate is 3.25% p.a. throughout the financial period.

Based on these assumptions, the **total amounts of annual fees** you need to pay under the Plan (including those payable to the APIF) in one financial period would be: HKD50.44.

Note: Fees and charges of a MPF conservative fund can be deducted from either (i) the assets of this constituent fund or (ii) members' account by way of unit deduction. The Principal – MPF Conservative Fund adopts method (i) hence, unit prices/NAV/fund performance quoted have incorporated the impact of such fees and charges.

Warning: This is just an illustrative example. The actual amounts of fees you need to pay may be **higher or lower**, depending on your choice of investments and activities taken during the financial period.

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