Principal® 信安

MPF Scheme Brochure for Principal MPF Scheme Series 600

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

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IMPORTANT NOTES

- **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.**

- The Principal Long Term Guaranteed Fund invests solely in an insurance policy-based APIF issued by Principal Insurance Company (Hong Kong) Limited ("**Principal**"). The guarantee is also provided by Principal. Your investments, if any, in the Principal Long Term Guaranteed Fund, are therefore subject to the credit risk of Principal. Please refer to section 3.4.1 *(Principal Long Term Guaranteed Fund)* for details of the credit risk, guarantee features and guarantee conditions.

- Principal, the guarantor of the insurance policy-based APIF in which the Principal Long Term Guaranteed Fund invests, will only provide a guarantee of capital and a prescribed guarantee rate of return in certain specified circumstances. Please note that you may lose the guarantee entitlement if you have elected to transfer your accrued benefits in the Scheme (i) from an account within the Scheme to another account within the Scheme; (ii) from the Principal Long Term Guaranteed Fund to another Constituent Fund in the Scheme; or (iii) to another registered scheme as described in section 6.7.2 *(Transferring accrued benefits from or within the Scheme)*. Please refer to section 3.4.1 *(Principal Long Term Guaranteed Fund)* for details of the guarantee conditions. Please also note that a partial withdrawal of accrued benefits may affect your guarantee entitlement under the Principal Long Term Guaranteed Fund. For details, please refer to Appendix I *(Operation of the guarantee in respect of the Principal Long Term Guaranteed Fund)*.

- If you are currently investing in the Principal Long Term Guaranteed Fund, a withdrawal of the accrued benefits on the ground of terminal illness may affect your entitlement to the guarantee and you may lose your guarantee. For details, please check this MPF Scheme Brochure or consult the Trustee before making any such withdrawal.

- Investment in the Principal HK Dollar Savings Fund is different from placing deposits with a bank or deposit-taking company and is not protected by the Deposit Protection Scheme. Investments in the Principal HK Dollar Savings Fund will be subject to investment risks.

- Fees and charges of a MPF conservative fund can be deducted from either (i) the assets of the Constituent Fund or (ii) members' account by way of unit deduction. The Principal MPF Conservative Fund uses method (i) and, therefore, unit prices/net asset value/fund performance quoted have incorporated the impact of fees and charges.

- You should consider your own risk tolerance level and financial circumstances before investing in the DIS. You should note that the Principal Core Accumulation Fund and the Principal Age 65 Plus Fund may not be suitable for you, and there may be a risk mismatch between the Principal Core Accumulation Fund and the Principal Age 65 Plus Fund 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.

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

- You should consider your own risk tolerance level and financial circumstances before making any investment choices. In your selection of Constituent Fund(s), when you are in doubt as to whether a 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 own circumstances.

- In the event that you do not make any investment choices, please be reminded that any contributions made and/or benefits transferred into the Scheme will be invested into the DIS.

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1. INTRODUCTION

The Principal MPF Scheme Series 600 ("**Scheme**") is a master trust scheme. The Scheme was created by the Master Trust Deed and was registered with the MPFA on 31 January 2000. The registration with the MPFA does not imply official recommendation from the MPFA.

The Scheme is governed by the laws of Hong Kong, and any beneficiary under the Scheme can enforce their rights under it through the courts of Hong Kong.

Information about Principal and the Scheme can be found on our website: http://www.principal.com.hk. In addition, our Principal TeleTouch© (our interactive voice response system (IVRS)) provides customer hotline services to the members. Members may call at +852 2827 1233. Our website and Principal TeleTouch© telephone services enable you to access up-to-date information relating to the Scheme and your MPF account.

Principal Trust Company (Asia) Limited, the Trustee of the Scheme, accepts responsibility for the accuracy of the information contained in this MPF Scheme Brochure at the time of its issue subject to the reservations or qualifications expressed in it. As this is meant to be a brief description of the terms and conditions of the Scheme, please refer to the Master Trust Deed and your particular proposal for further and complete information.

With effect from the Restructuring Date, the S500 Scheme was merged into the Scheme. As a result of such merger, a Former S500 Member or Former S500 Employer under the S500 Scheme immediately before such merger automatically became a member or participating employer under the Scheme effective from the Restructuring Date. These Former S500 Members and Former S500 Employers, in such capacities, are subject to certain operational and benefit arrangements as per those under the S500 Scheme even after the automatic enrolment into the Scheme.

For further information and a customised proposal, please contact the Trustee at +852 2827 1233, or speak to your professional advisor or consultant.

2. DIRECTORY OF TRUSTEE AND SERVICE PROVIDERS

Scheme level

Trustee	**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
Promoter	**Principal Investment & Retirement Services Limited** 30/F Millennium City 6 392 Kwun Tong Road, Kwun Tong, Kowloon Hong Kong
Administrator	**Principal Trust Company (Asia) Limited** 30/F Millennium City 6 392 Kwun Tong Road, Kwun Tong, Kowloon Hong Kong
Investment Manager	**Principal Asset Management Company (Asia) Limited** 30/F Millennium City 6 392 Kwun Tong Road, Kwun Tong, Kowloon Hong Kong
Custodian	**Citibank, N.A.** 50/F, Citibank Tower Citibank Plaza 3 Garden Road, 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

Underlying APIF/ITCIS level

Insurer	**Principal Insurance Company (Hong Kong) Limited** 30/F Millennium City 6 392 Kwun Tong Road, Kwun Tong, Kowloon 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.

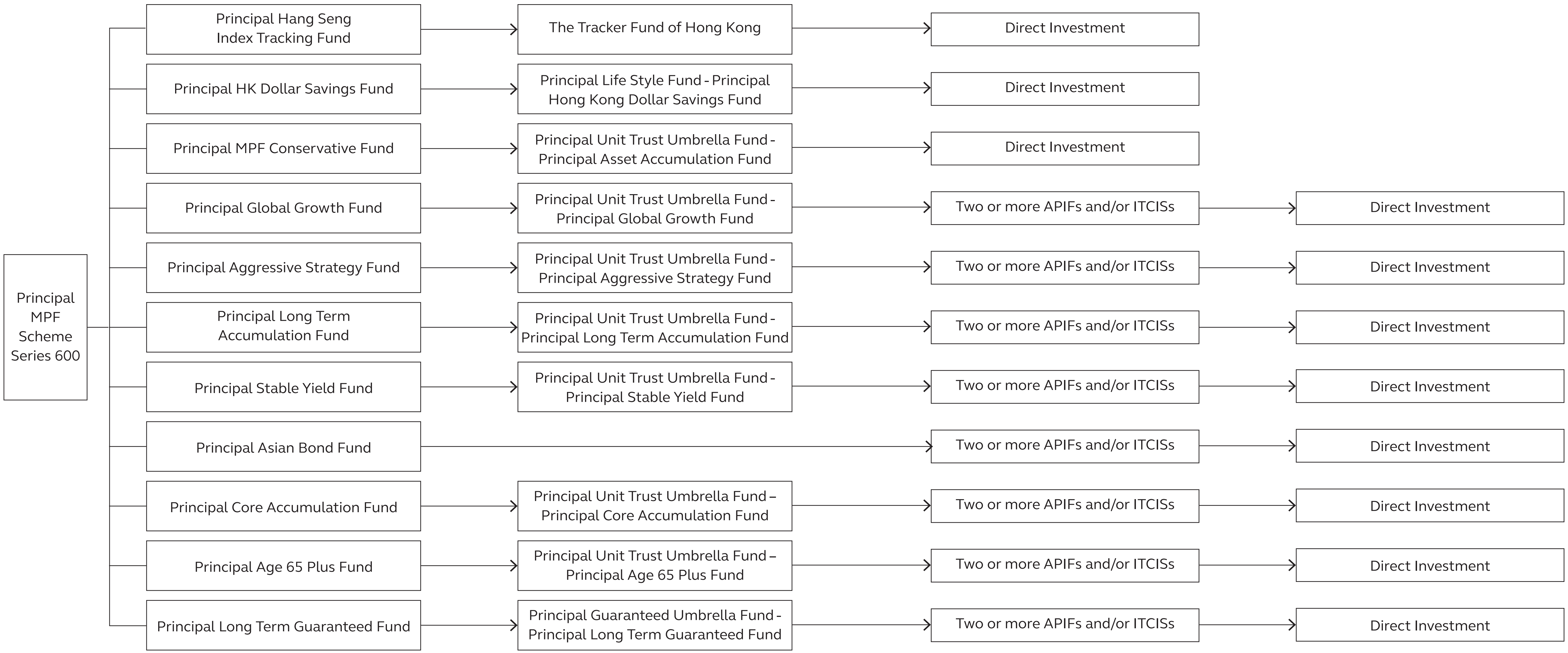
Principal Trust Company (Asia) Limited, the Trustee, was incorporated in Hong Kong in 1997 and has been managing retirement assets in Hong Kong since 2000. The Trustee provides one-stop shop services on retirement scheme management, including corporate trustee, fund and scheme administration services.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

The Scheme is sponsored by Principal Insurance Company (Hong Kong) Limited, an insurer authorised by the Insurance Authority and is promoted by Principal Investment & Retirement Services Limited. Principal Insurance Company (Hong Kong) Limited, as the sponsor of the Scheme, provides product design advice as well as ancillary and support services to the Trustee as may be agreed between them from time to time, including but not limited to business development, marketing, sponsoring of the Scheme and product development.

Principal Asset Management Company (Asia) Limited, the Investment Manager, is licensed for Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance.

3. FUND OPTIONS, INVESTMENT OBJECTIVES AND POLICIES

3.1 The Scheme



3.2 Constituent Funds

No.	Constituent Fund	Investment Manager	Fund structure	Fund descriptor	Investment focus
1.	Principal Long Term Guaranteed Fund	Principal Asset Management Company (Asia) Limited	Feeder Fund^	Guaranteed Fund	10 – 55% in equity securities; 25 – 90% in debt securities; 0 – 20% in cash and short-term investments
2.	Principal Long Term Accumulation Fund	Principal Asset Management Company (Asia) Limited	Feeder Fund	Mixed Assets Fund – Global – Maximum equity around 80%	20– 80% in equity securities; 15 – 75% in debt securities; 0 – 20% in cash and short-term investments
3.	Principal HK Dollar Savings Fund	Principal Asset Management Company (Asia) Limited	Feeder Fund	Uncategorised Fund – U.S., Hong Kong and Other	60 – 100% in short-to-medium duration debt securities; 0 – 40% in cash and short-term investments
4.	Principal Global Growth Fund	Principal Asset Management Company (Asia) Limited	Feeder Fund	Mixed Assets Fund – Global – Maximum equity around 90%	30 – 90% in equity securities; 10 – 70% in debt securities; 0 – 30% in cash and short-term investments
5.	Principal Hang Seng Index Tracking Fund	Principal Asset Management Company (Asia) Limited	Feeder Fund	Equity Fund – Hong Kong	90 – 100% in equity securities; 0 – 10% in cash and short-term investments
6.	Principal Asian Bond Fund	Principal Asset Management Company (Asia) Limited	Portfolio Management Fund^^	Bond Fund – Asia	70 – 100% in debt securities; 0 – 30% in cash and time deposits
7.	Principal Aggressive Strategy Fund	Principal Asset Management Company (Asia) Limited	Feeder Fund	Mixed Assets Fund – Global – Maximum equity around 100%	60 – 100% in equity securities; 0 – 40% in debt securities; 0 – 30% in cash and short-term investments
8.	Principal Stable Yield Fund	Principal Asset Management Company (Asia) Limited	Feeder Fund	Mixed Assets Fund – Global – Maximum equity around 60%	0 – 60% in equity securities; 20 – 90% in debt securities; 0 – 30% in cash and short-term investments

No.	Constituent Fund	Investment Manager	Fund structure	Fund descriptor	Investment focus
9.	Principal MPF Conservative Fund	Principal Asset Management Company (Asia) Limited	Feeder Fund	Money Market Fund – Hong Kong	0 – 95% in certificates of deposit; 0 – 95% in debt securities; 0 – 100% in cash and short-term investments
10.	Principal Core Accumulation Fund	Principal Asset Management Company (Asia) Limited	Feeder Fund	Mixed Assets Fund – Global – Equity around 60%	Around 60% in higher risk assets; Around 40% in lower risk assets
11.	Principal Age 65 Plus Fund	Principal Asset Management Company (Asia) Limited	Feeder Fund	Mixed Assets Fund – Global – Equity around 20%	Around 20% in higher risk assets; 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 that invests in units of more than one APIF/ITCIS.

3.3 Risk profile

The classifications of risk/return profile are determined by the Investment Manager, based on past volatility (i.e. annualized standard deviation of returns) and the relative risk levels among the constituent funds in the registered schemes. The classifications of risk/return profile will be reviewed by the Investment Manager on an annual basis and are for reference only. Before making any investment decisions, Scheme participants should consider their own specific circumstances, including, without limitation, their own risk tolerance level, financial circumstances and investment objectives etc. If in doubt, Scheme participants should consult their stockbrokers, bank managers, solicitors, accountants, representative banks or other financial advisers.

Investment involves risks and the value of the Constituent Funds may go up or down.

3.4 Investment objectives of each Constituent Fund and other particulars

Should there be any changes to the investment policy, the Trustee will notify the Scheme participants three months (or a shorter period as agreed by the SFC) in advance.

Investors should note that (i) the ranges of assets and geographic allocations as shown in this section are for indication only and long-term allocations may vary with changing market conditions; and (ii) the geographic allocation for equity investments is classified by the principal place of business of the issuers and the geographic allocation for debt investments is classified by the relevant currency denomination.

3.4.1 Principal Long Term Guaranteed Fund

(a) Investment objective

The objective of the Principal Long Term Guaranteed Fund is to provide a competitive long-term total rate of return, while also providing a minimum guaranteed average annual return over the career of the members (i.e. long term guarantee). In the long term, the return of the Principal Long Term Guaranteed Fund is expected to be no less than the inflation rates in Hong Kong. The Principal Long Term Guaranteed Fund is denominated in HKD.

The Principal Long Term Guaranteed Fund invests in an insurance policy-based APIF which includes a guarantee. The insurance policy-based APIF is issued by Principal.

The Principal Long Term Guaranteed Fund adopts a longer-term investment philosophy. Principal, the insurer of the underlying insurance policy-based APIF, is the guarantor of the capital and the guaranteed rate of return for the underlying insurance policy-based APIF in which the Principal Long Term Guaranteed Fund invests.

For the purposes of this MPF Scheme Brochure, the below terms have the following meaning:-

"intra-group transfer"	means any intra-group transfer of an employee member and the accrued benefits of the member to the new participating employer's participating scheme under the Scheme or another registered scheme under the trusteeship of Principal Trust Company (Asia) Limited and the management of Principal Asset Management Company (Asia) Limited, whereby the accrued benefits of the member (without the application of the guarantee) will be transferred to his new scheme accounts under the participating scheme of his new participating employer.
"mandatory portion"	means accrued benefits derived from mandatory contributions.
"nominal account balance"	means the net asset value in the units of the Principal Long Term Guaranteed Fund (without the application of the guarantee and before the deduction of the applicable bid spread, if any).
"prevailing applicable rate"	means 1% per annum and subject to the approval of the MPFA, such other rate as may be adjusted by Principal, as the insurer of the underlying insurance policy-based APIF, at a frequency of not more than once every three years, with at least three months prior notice from the Trustee to the members concerned before the effective date of the adjustment. Any adjustment to the prevailing applicable rate will be applicable to the qualifying balance from the date of adjustment and shall not affect the application of the relevant guaranteed rate(s) prior to the adjustment.
"qualifying event"	means in relation to a member, the occurrence of one of the following events: (i) Attainment of the normal retirement age or retirement at or after the early retirement age but before the normal retirement age; (ii) Total incapacity; (iii) Terminal illness; (iv) Death; (v) Permanent departure from Hong Kong; (vi) Claim of "small balance"; or (vii) (In respect of employee members only) Termination of the member's employment (regardless of the reason of termination) and the qualifying period is at least 36 complete months, provided that the qualifying period may be re-set to zero if the member effects a redemption, switching out or withdrawal of the units in the Principal Long Term Guaranteed Fund other than upon the occurrence of a qualifying event. For illustrations, please refer to Scenario 3 - Example 6 set out in Appendix II *(Illustrations of the Guarantee Features of the Principal Long Term Guaranteed Fund).*

"qualifying period" means the continuous period for which the member has been investing in the Principal Long Term Guaranteed Fund up to and including the last date of his employment.

"Relevant Transfer of Benefits" means, other than in the context of an intra-group transfer, any transfer of accrued benefits attributable to the Principal Long Term Guaranteed Fund between different accounts of a member within the Scheme involving redemption, switching out or withdrawal of the units in the Principal Long Term Guaranteed Fund other than upon the occurrence of a qualifying event. Accordingly, any reference to the words "redemption, switching out or withdrawal other than upon the occurrence of a qualifying event" (or derivative wording of the same meaning) in section 3.4.1 *(Principal Long Term Guaranteed Fund)* and in Appendix II *(Illustrations of the Guarantee Features of the Principal Long Term Guaranteed Fund)* shall be construed to include any Relevant Transfer of Benefits.

"Valid Claim" means:

(i) a claim of all accrued benefits;

(ii) in respect of a self-employed person:

(A) who remains in self-employment notwithstanding attaining the normal retirement age, the first claim to occur of any of the following (and for the avoidance of doubt, excluding any subsequent claims):

(1) a claim for all of the mandatory portion;
(2) a claim for all of the voluntary portion;
(3) a claim for part of the mandatory portion; or
(4) a claim for part of the voluntary portion,

in each case of (1) to (4), upon the occurrence of the qualifying event of reaching normal retirement age ("qualifying event (i)"), and the guarantee will apply to the whole of the mandatory portion and voluntary portion of the self-employed person, regardless of whether the first claim to occur is for all or part of the mandatory or voluntary portion;

(B) a claim of all of the mandatory portion upon the occurrence of the qualifying event (iii); or

(iii) in respect of an employee member:

(A) who remains in employment notwithstanding attaining normal retirement age, the first claim to occur of either of the following (for the avoidance of doubt, excluding any subsequent claims):

(1) a claim of all of the mandatory portion; or
(2) a claim of part of the mandatory portion,

upon the occurrence of the qualifying event (i), and the guarantee will apply to the entire mandatory portion regardless of whether the first claim to occur is for all or part of the mandatory portion; or

(B) a claim of all units in the relevant scheme account maintained for the mandatory portion upon the occurrence of the qualifying event (iii).

The Valid Claim should be submitted by the relevant member or his personal representative, as the case may be, pursuant to, and with all the necessary supporting documentation as prescribed by, the applicable regulations and the rules of the Scheme and must be received by the Trustee. Where an employee member invests in the Principal Long Term Guaranteed Fund in his capacity as an employee member under more than one employment, a Valid Claim made by the employee member under one employment shall mean a Valid Claim submitted by him under that employment only, but not under any other employment.

"voluntary portion" means accrued benefits derived from voluntary contributions.

Contributions made by or on behalf of a member for the subscription of units in the Principal Long Term Guaranteed Fund will receive a guarantee of capital as well as a prescribed guarantee rate of return (depending on when the subscription is made, please see Appendix I *(Operation of the guarantee in respect of the Principal Long Term Guaranteed Fund)* for details) over the entire period such contributions are invested in the Principal Long Term Guaranteed Fund in the manner described below. Members should note that the guarantee of capital and return may be subject to the imposition of a bid spread in the future in relation to the redemption of the relevant units. The guarantee of capital and return will only be offered if the accrued benefits attributable to contributions in the Principal Long Term Guaranteed Fund are withdrawn upon the occurrence of a qualifying event.

In addition, the guarantee will apply in the following circumstances (the "**Exceptional Circumstances**"):

- *If the relevant member retires upon or after attaining the normal retirement age (qualifying event (i) other than early retirement) or dies (qualifying event (iv)), but he (or his personal representative) has failed to file a Valid Claim of his accrued benefits under the Scheme and, where applicable, to make an election pursuant to section 146 of the General Regulation:* the accrued benefits (with the application of the guarantee) will be transferred to the member's personal account under the Scheme pursuant to the applicable regulations and the Scheme rules. After the transfer, the guarantee at the prevailing applicable rate will apply to his personal account of the Scheme in respect of the balances so transferred. When the member (or his personal representative) subsequently files a Valid Claim in respect of the personal account upon occurrence of a relevant qualifying event, the member (or his personal representative) will be entitled to the guarantee under the prevailing applicable rate in respect of the balance in his personal account.

- *In case of qualifying event (vii), if the employment of the member is terminated after fulfilling the qualifying period but the member has failed to file a Valid Claim of his accrued benefits under the Scheme and to make an election pursuant to section 146 of the General Regulation:* his accrued benefits (with the application of the guarantee) will be transferred to the personal account under the Scheme pursuant to the applicable regulations and the Scheme rules. Subsequent to the transfer, the guarantee at the prevailing applicable rate will apply to his personal accounts in respect of the balances so transferred. When the relevant member finally files a Valid Claim in respect of the personal account(s) upon the occurrence of a qualifying event, the member will be entitled to the guarantee under the prevailing applicable rate in respect of the balance in his personal account.

If there is an intra-group transfer in respect of a member, such new scheme accounts will, for the purpose of the guarantee, be treated as a continuation of his original scheme accounts and all the guarantee entitlements which he had accrued under the old scheme accounts will continue under his new scheme accounts as if there had never been any transfer. Accordingly, any continuous period for which the member had been investing in the Principal Long Term Guaranteed Fund under the original participating employer immediately preceding such transfer will also be taken into account in determining the qualifying period of that member under his employment with the new employer. The guaranteed rate of return which is applicable to the old scheme accounts will also be applicable to the new scheme accounts unless there is a redemption, switching out or withdrawal of the units in the Principal Long Term Guaranteed Fund other than upon the occurrence of a qualifying event. If the member subsequently files a Valid Claim of his accrued benefits from the new scheme accounts upon the occurrence of a qualifying event, the guarantee will be applied as at the date of withdrawal.

However, if a member effects a redemption, switching out or withdrawal of units of the Principal Long Term Guaranteed Fund at any time after 30 September 2004 other than the occurrence of a qualifying event, the remaining qualifying balance (regardless of whether it includes contributions made on or before 30 September 2004) will only be credited with 1.0% interest (i.e. the prevailing applicable rate).

Caution: Members should also note that if any of the qualifying events occurs but the accrued benefits of a member are transferred to the personal account(s) as a result of his failure of filing a Valid Claim of his accrued benefits prior to the transfer, then, unless any of the Exceptional Circumstances occurs:

(i) no guarantee will apply at the time when the accrued benefits are transferred to the personal account(s);

(ii) any guarantee entitlements in respect of the member prior to the transfer will be forfeited; and

(iii) the prevailing applicable rate will be applicable to the personal account after the transfer of the accrued benefits thereto.

Further, if the relevant member elects to transfer his accrued benefits to the personal account(s) upon termination of employment, or elects to have a Relevant Transfer of Benefit, but none of the relevant qualifying conditions occurs, no guarantee will be applicable at the time when the accrued benefits are so transferred.

Investments in the insurance policy-based APIF are held as the assets of Principal. Where Principal is liquidated, you may not have access to your investments temporarily, or their value may be reduced. Before you invest in the Principal Long Term Guaranteed Fund, you should consider the credit risk posed by Principal, the insurer of the insurance policy-based APIF and, if necessary, seek additional information or advice.

(b) Balance of investments

The Principal Long Term Guaranteed Fund invests in an insurance policy-based APIF. The insurance policy-based APIF invests, in turn, in two or more APIFs and/or ITCISs. In selecting these APIFs and ITCISs, the Investment Manager will seek to achieve the objective of the Principal Long Term Guaranteed Fund.

The selected APIFs and/or ITCISs are expected to use an investment strategy which focuses on, among others, fundamental analysis in order to identify the assets and the markets which are likely to offer good investment value. Such analysis should focus on economic issues such as GDP growth, inflation, monetary policy, currency analysis, valuations etc. At the security-selection level, analysis would focus on both micro and macro factors. These factors include margins, revenues, earnings expectations etc.

The underlying investments will consist of debt and equity securities. Such securities may be denominated in HKD, USD or other currencies, and consistent with the overall risk-return objectives and target geographical allocation of the Principal Long Term Guaranteed Fund. Currently, HKD is pegged to USD but the Principal Long Term Guaranteed Fund makes no assurance that this relationship will continue and therefore the Investment Manager requires the flexibility to choose assets in other currencies. Exposure to assets denominated in any currency other than HKD can bring potential gains or losses to the Principal Long Term Guaranteed Fund as the Principal Long Term Guaranteed Fund itself is denominated in HKD. As the Principal Long Term Guaranteed Fund indirectly owns debt and equity securities, members investing in the Principal Long Term Guaranteed Fund will experience gains and losses on these securities as markets fluctuate.

The target ranges of asset allocation and geographic allocation of the Principal Long Term Guaranteed Fund are as follows:

Asset allocation	**Range**
Equity securities	10 – 55%
Debt securities	25 – 90%
Cash and short-term investments (e.g. bills and deposits)	0 – 20%

Geographic allocation	**Range**
United States and Greater China	40 – 100%
Other Asia	0 – 50%
Europe	0 – 50%
Other Countries	0 – 50%

The Principal Long Term Guaranteed Fund will maintain at least 30% in HKD currency investments, as measured by effective currency exposure.

(c) Security lending and repurchase agreements

The Principal Long Term Guaranteed Fund will not engage in security lending or repurchase agreements.

(d) Futures and options

The Principal Long Term Guaranteed Fund may not enter into any financial futures contracts or financial options contracts.

(e) Risks

The Principal Long Term Guaranteed Fund is categorised as a guaranteed fund. The level of risk is higher than a money market fund, however, with a guarantee of capital and return subject to the occurrence of a qualifying event.

Investments in the Principal Long Term 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 risks
- 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
- Risks relating to investing solely in a single APIF or ITCIS
- Sovereign debt risks
- Valuation risks
- Credit rating risk
- Eurozone risks
- Risks of investing in collective investment schemes
- RMB currency and conversion risks
- PRC investment risk
- PRC tax risk with respect to capital gains
- Risk of investing in CIBM and/or Bond Connect
- Custodial risk
- Hedging risk
- Legal and regulatory risk
- Trading risks

3.4.2 Principal Long Term Accumulation Fund

(a) Investment objective

The objective of the Principal Long Term Accumulation Fund is to earn a competitive long-term total rate of return through investing in a balanced portfolio. The Principal Long Term Accumulation Fund is denominated in HKD.

The Principal Long Term Accumulation Fund is categorised as a balanced fund. While the short-term return may be volatile due to the risk inherent in its investments, the long-term rate of return is expected to be higher than that of a money market or bond fund.

In the long term, the return of the Principal Long Term Accumulation Fund is expected to be no less than the inflation rates in Hong Kong.

(b) Balance of investments

The Principal Long Term Accumulation Fund invests in a unit trust APIF managed by the Investment Manager. The APIF in turn invests in two or more APIFs and/or ITCISs. The Investment Manager selects APIFs and ITCISs that help achieve the objective of the Principal Long Term Accumulation Fund.

The selected APIFs will use an investment strategy which focuses on fundamental analysis in order to identify countries offering good relative value. Country research will focus on economic data such as GDP growth, inflation, monetary policy, etc. The global economic and individual countries' macroeconomics environment will be assessed before conducting the country asset allocation process.

Selection of debt securities is based on long-term, fundamental analysis. Through the underlying APIFs, the Principal Long Term Accumulation Fund will invest in the global bond markets of a broad array of governments, provinces, government-supported entities as well as corporate issuance. Equity investments will be made in securities which as a group, appear to possess potential for appreciation in market value. Common stocks chosen for investment may include those of companies with above average sales and earnings growth. The policy of investing in securities which have a high potential for capital growth can mean that the assets of the Principal Long Term Accumulation Fund may be subject to greater risk than securities which do not have such potential.

The target ranges of asset allocation and geographic allocation of the Principal Long Term Accumulation Fund are as follows:

Asset allocation	**Range**
Equity securities	20 – 80%
Debt securities	15 – 75%
Cash and short-term investments (e.g. bills and deposits)	0 – 20%

Geographic allocation	**Range**
United States	15 – 100%
Asia	0 – 85%
Europe	0 – 30%
Others	0 – 20%

The Principal Long Term Accumulation Fund will maintain at least 30% in HKD currency investments, as measured by effective currency exposure.

(c) Security lending and repurchase agreements

The Principal Long Term Accumulation Fund will not engage in security lending or repurchase agreements.

(d) Futures and options

The Principal Long Term Accumulation Fund may not enter into any financial futures contracts or financial options contracts.

(e) Risks

The risk profile of the Principal Long Term Accumulation Fund is generally regarded as moderate to high.

As the Principal Long Term Accumulation Fund takes exposure to various currencies at any given time, investors in the Principal Long Term Accumulation Fund share the foreign exchange gains and losses associated with funds owning these currencies. Because the Principal Long Term Accumulation Fund indirectly owns debt securities, investors in the Principal Long Term Accumulation Fund will experience gains and losses on these securities as interest rates fluctuate.

Investments in the Principal Long Term 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 risks
- 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
- Risks relating to investing solely in a single APIF or ITCIS
- Sovereign debt risks
- Valuation risks
- Credit rating risk
- Eurozone risks
- Risks of investing in collective investment schemes
- RMB currency and conversion risks
- PRC investment risk
- PRC tax risk with respect to capital gains
- Risk of investing in CIBM and/or Bond Connect
- Custodial risk
- Hedging risk
- Legal and regulatory risk
- Trading risks

3.4.3 Principal HK Dollar Savings Fund

(a) Investment objective

The objective of the Principal HK Dollar Savings Fund is to earn a competitive short-to-medium term rate of return. The Principal HK Dollar Savings Fund is denominated in HKD.

In the long term, the return of the Principal HK Dollar Savings Fund is expected to exceed the HKD bank saving rates in Hong Kong.

(b) Balance of investments

The Principal HK Dollar Savings Fund invests in a unit trust APIF. The APIF invests in a portfolio of high quality HKD short to medium duration debt securities. The APIF may also hold assets denominated in USD or other currencies.

The target ranges of asset allocation and geographic allocation of the Principal HK Dollar Savings Fund are as follows:

Asset allocation	Range
Short-to-medium duration debt securities (e.g. certificates of deposits)	60 – 100%
Cash and short-term investments (e.g. bills and deposits)	0 – 40%

Geographic allocation	Range
Hong Kong	70 – 100%
United States	0 – 30%
Europe	0 – 30%
Others	0 – 20%

The Principal HK Dollar Savings Fund will maintain at least 30% in HKD currency investments, as measured by effective currency exposure.

(c) Security lending and repurchase agreements

The Principal HK Dollar Savings Fund will not engage in security lending or repurchase agreements.

(d) Futures and options

The Principal HK Dollar Savings Fund may not enter into any financial futures contracts or financial options contracts.

(e) Risks

The risk profile of the Principal HK Dollar Savings Fund is generally regarded as low.

Investments in the Principal HK Dollar Savings 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 risks
- 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 relating to investing solely in a single APIF or ITCIS
- Risks relating solely to investment in the Principal HK Dollar Savings Fund
- Sovereign debt risks
- Valuation risks
- Credit rating risk
- Eurozone risks
- Risks of investing in collective investment schemes
- RMB currency and conversion risks
- Custodial risk
- Risks relating to investing in an APIF or an ITCIS that invests in a single market
- Risk of investing in CIBM and/or Bond Connect

3.4.4 Principal Global Growth Fund

(a) Investment objective

The objective of the Principal Global Growth Fund is to seek long-term growth of capital through investing in a balanced portfolio. The Principal Global Growth Fund is denominated in HKD.

In the long term, the return of the Principal Global Growth Fund is expected to exceed the inflation rates in Hong Kong.

(b) Balance of investments

The Principal Global Growth Fund invests in a unit trust APIF managed by the Investment Manager. The APIF in turn invests in two or more APIFs and/or ITCISs. The Investment Manager selects APIFs and ITCISs that help achieve the objective of the Principal Global Growth Fund. Through these underlying investments, the Principal Global Growth Fund will invest primarily in equities and debt securities of different countries. The Principal Global Growth Fund will provide an international exposure for investors' monies using a balanced investment philosophy. It will normally target a larger allocation to equity investments than debt securities.

The target ranges of asset allocation and geographic allocation of the Principal Global Growth Fund are as follows:

Asset allocation	Range
Equity securities	30 – 90%
Debt securities	10 – 70%
Cash and short-term investments (e.g. bills and deposits)	0 – 30%

Geographic allocation	Range
Asia	0 – 75%
Europe	0 – 75%
North America	0 – 80%
South America	0 – 10%
Africa/Middle East	0 – 10%
Others	0 – 20%

The Principal Global Growth Fund will maintain at least 30% in HKD currency investments, as measured by effective currency exposure.

(c) Security lending and repurchase agreements

The Principal Global Growth Fund will not engage in security lending or repurchase agreements.

(d) Futures and options

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

(e) Risks

The risk profile of the Principal Global Growth Fund is generally regarded as moderate to high.

Investors in the Principal Global Growth Fund share the foreign exchange gains and losses associated with funds owning securities denominated in USD and other currencies.

Investments in the Principal Global 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 risks
- 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
- Risks relating to investing solely in a single APIF or ITCIS
- Sovereign debt risks
- Valuation risks
- Credit rating risk
- Eurozone risks
- Risks of investing in collective investment schemes
- RMB currency and conversion risks
- PRC investment risk
- PRC tax risk with respect to capital gains
- Risk of investing in CIBM and/or Bond Connect
- Custodial risk
- Hedging risk
- Legal and regulatory risk
- Trading risks

3.4.5 Principal Hang Seng Index Tracking Fund

(a) Investment objective

The objective of the Principal Hang Seng Index Tracking Fund is to provide investment results that closely correspond to the performance of the Hang Seng Index. The Principal Hang Seng Index Tracking Fund is denominated in HKD.

In the long term, the rate of return of the Principal Hang Seng Index Tracking Fund is expected to exceed the Hong Kong inflation rate.

(b) Balance of investments

The Principal Hang Seng Index Tracking Fund invests all or substantially all of its assets in units in an ITCIS (The Tracker Fund of Hong Kong). The ITCIS in turn invests all or substantially all of its assets in equity securities listed on the Hong Kong Stock Exchange.

The Principal Hang Seng Index Tracking Fund will, through investing into the underlying ITCIS, maintain an effective currency exposure to HKD of not less than 30%.

(c) Security lending and repurchase agreements

The Principal Hang Seng Index Tracking Fund will not engage in security lending or enter into repurchase agreements.

(d) Futures and options

The Principal Hang Seng Index Tracking Fund will not enter into or acquire financial derivative instruments, including financial futures contracts or financial options contracts.

(e) Risks

The risk profile of the Principal Hang Seng Index Tracking Fund is generally regarded as high.

There are particular risks involved in investing in an ITCIS which investors should note. Please refer to the relevant risk disclosures under section 4 *(Risks)*.

One of the risks for investing in the Principal Hang Seng Index Tracking Fund is that the performance of the Principal Hang Seng Index Tracking Fund may be subject to certain degree of tracking error. The Investment Manager will monitor the tracking error of the Principal Hang Seng Index Tracking Fund on an on-going basis. If the tracking error exceeds a certain threshold, the Investment Manager will consider the reasons for such deviation and take actions where appropriate.

Investments in the 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 risks
- Interest rate risk
- Market risk
- Accounting standards and disclosure
- Foreign exchange risk
- Security risk
- Credit risk
- Counterparty risk
- Liquidity 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 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
- Credit rating risk
- Risks of investing in collective investment schemes
- Custodial risk
- Risk relating solely to investing in Principal Hang Seng Index Tracking Fund

3.4.6 Principal Asian Bond Fund

(a) Investment objective

The objective of the Principal Asian Bond Fund is to provide a return consisting of income and capital growth over medium to long term. The Principal Asian Bond Fund is denominated in HKD.

In the long term, the return of the Principal Asian Bond Fund is expected, but not guaranteed, to be comparable to the inflation rates in Hong Kong.

(b) Balance of investments

The Principal Asian Bond Fund invests in two or more APIFs (in the form of unit trusts) and/or ITCISs, each of which in turn makes direct investments. In selecting these APIFs and ITCISs, the Investment Manager will review the appropriateness of the underlying investments in meeting the objective of the Principal Asian Bond Fund. Factors taken into consideration include, but are not limited to, the investment policies and objectives, portfolio strategies, historical performances, and liquidity of the underlying investments.

Through these underlying investments, the Principal Asian Bond Fund will invest a majority of its assets in Asian debt securities, including but not limited to sovereign and/or non-sovereign, floating and/or fixed, of varying maturities issued by the government or by multi-lateral agencies or by companies, and denominated in major Asian currencies. The types of debt securities that the Principal Asian Bond Fund primarily intends to invest into are government bonds, corporate bonds/debentures, floating rate notes, bills, commercial papers and certificates of deposit. In addition, the Principal Asian Bond Fund will invest not more than 30% of its assets in time deposits or may hold cash.

Other than HKD, exposure to any single Asian currency, including but not limited to RMB, South Korean Won and Singaporean dollars, will not exceed 30% of the Principal Asian Bond Fund's total assets. During special circumstances, such as periods of uncertainty or high volatility in Asian debt securities markets, the Principal Asian Bond Fund may invest up to 20% of its assets in non-Asian currency assets to protect the Principal Asian Bond Fund. During periods of high volatility, Asian debt securities may be less liquid or with higher bid-offer spreads etc. making them more difficult and expensive to transact in the market. To help the Principal Asian Bond Fund maintain liquidity and buffer against market volatility, the Investment Manager may choose to invest in other non-Asian currency assets, such as US Treasuries, non-Asian highly rated sovereign debt securities, which are more liquid and have lower bid-offer spread etc.

The target ranges of asset allocation and geographic allocation of the Principal Asian Bond Fund are as follows:

Asset allocation	Range
Debt securities	70 – 100%
Cash and time deposits	0 – 30%

Geographic allocation	Range
Asia	80 – 100%
Others	0 – 20%

The Principal Asian Bond Fund will maintain at least 30% in HKD currency investments, as measured by effective currency exposure.

(c) **Security lending and repurchase agreements**

The Principal Asian Bond Fund will not engage in security lending or repurchase agreements.

(d) **Futures and options**

The Principal Asian Bond Fund may not enter into any financial futures contracts or financial options contracts except for hedging purpose.

(e) **Risks**

The risk profile of the Principal Asian Bond Fund is generally regarded as moderate. Members should note that investment in the Principal Asian Bond Fund is subject to investment grade bond risk i.e. debt securities ratings getting downgraded by rating agencies. As the Principal Asian Bond Fund takes exposure to various currencies at any given time, investors in the Principal Asian Bond Fund share the foreign exchange gains and losses associated with funds owning securities denominated in these currencies.

Investments in the Principal 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 risks
- Interest rate risk
- Market risk
- Foreign exchange risk
- Security risk
- Accounting standards and disclosure
- Credit risk
- Counterparty risk
- Investment grade bond risk
- Risk of investing in CIBM and/or Bond Connect
- Liquidity risk
- Hedging risk
- Sovereign debt risks
- Valuation risks
- Credit rating risk
- Eurozone risks
- Risks of investing in collective investment schemes
- RMB currency and conversion risks
- PRC investment risk
- PRC tax risk with respect to capital gains
- Custodial risk
- Fund of funds risk

3.4.7 Principal Aggressive Strategy Fund

(a) **Investment objective**

The objective of the Principal Aggressive Strategy Fund is to seek long-term growth of capital through investing entirely in an APIF, Principal Aggressive Strategy Fund, a sub-fund of Principal Unit Trust Umbrella Fund. The Principal Aggressive Strategy Fund is denominated in HKD.

In the long term, the return of the Principal Aggressive Strategy Fund is expected to exceed the inflation rates in Hong Kong.

(b) Balance of investments

The APIF is established in the form of a unit trust and is also managed by the Investment Manager. The APIF will in turn invest in two or more APIFs and/or ITCISs. In selecting these APIFs and ITCISs, the Investment Manager will review the appropriateness of the underlying investments in meeting the objective of the Principal Aggressive Strategy Fund. Factors taken into consideration include, but are not limited to, the investment policies and objectives, portfolio strategies, historical performances, and liquidity of the underlying investments.

Through these underlying investments, the Principal Aggressive Strategy Fund will invest primarily in equities and debt securities of different countries. The Principal Aggressive Strategy Fund will provide an international exposure for investors' monies, with relatively more emphasis on equity investments.

The target ranges of asset allocation and geographic allocation of the Principal Aggressive Strategy Fund are as follows:

Asset allocation	Range
Equity securities	60 – 100%
Debt securities	0 – 40%
Cash and short-term investments (e.g. bills and deposits)	0 – 30%

Geographic allocation	Range
Asia Pacific	0 – 75%
Europe	0 – 75%
North America	0 – 80%
South America	0 – 10%
Africa/Middle East	0 – 10%

The Principal Aggressive Strategy Fund will maintain at least 30% in HKD currency investments, as measured by effective currency exposure.

(c) Security lending and repurchase agreements

The Principal Aggressive Strategy Fund and the underlying APIF will not engage in security lending or repurchase agreements.

(d) Futures and options

The Principal Aggressive Strategy Fund may not enter into any financial futures contracts or financial options contracts.

(e) Risks

The risk profile of the Principal Aggressive Strategy Fund is generally regarded as high.

Investors in the Principal Aggressive Strategy Fund share the foreign exchange gains and losses associated with funds owning securities denominated in USD and currencies other than HKD.

Investments in the Principal Aggressive Strategy 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 risks
- Interest rate risk
- Market risk
- Foreign exchange risk
- Security risk
- Accounting standards and disclosure
- Credit risk
- Sovereign debt risks
- Valuation risks
- Credit rating risk
- Eurozone risks
- PRC tax risk with respect to capital gains
- Hedging risk
- Risks relating to investing solely in a single APIF or ITCIS
- 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
- Risks of investing in collective investment schemes
- RMB currency and conversion risks
- PRC investment risk
- Custodial risk
- Legal and regulatory risk
- Risk of investing in CIBM and/or Bond Connect
- Trading risks

3.4.8 Principal Stable Yield Fund

(a) Investment objective

The objective of the Principal Stable Yield Fund is to seek long-term growth of capital through investing in a balanced portfolio. The Principal Stable Yield Fund is denominated in HKD.

In the long term, the return of the Principal Stable Yield Fund is expected to exceed the inflation rates in Hong Kong.

(b) Balance of investments

The Principal Stable Yield Fund invests in a unit trust APIF managed by the Investment Manager. The APIF in turn invests in two or more APIFs and/or ITCISs. The Investment Manager selects APIFs and ITCISs that help achieve the objective of the Principal Stable Yield Fund. Through these underlying investments, the Principal Stable Yield Fund will invest primarily in equities and debt securities of different countries. The Principal Stable Yield Fund will provide an international exposure for investors' monies, with relatively more emphasis on debt investments.

The target ranges of asset allocation and geographic allocation of the Principal Stable Yield Fund are as follows:

Asset allocation	**Range**
Equity securities	0 – 60%
Debt securities	20 – 90%
Cash and short-term investments (e.g. bills and deposits)	0 – 30%

Geographic allocation	Range
Asia	0 – 75%
Europe	0 – 75%
North America	0 – 80%
South America	0 – 10%
Africa/Middle East	0 – 10%
Others	0 – 20%

The Principal Stable Yield Fund will maintain at least 30% in HKD currency investments, as measured by effective currency exposure.

(c) Security lending and repurchase agreements

The Principal Stable Yield Fund will not engage in security lending or repurchase agreements.

(d) Futures and options

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

(e) Risks

The risk profile of the Principal Stable Yield Fund is generally regarded as moderate.

Investors in the Principal Stable Yield Fund share the foreign exchange gains and losses associated with funds owning securities denominated in USD and other currencies.

Investments in the Principal Stable Yield 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 risks
- 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
- Risks relating to investing solely in a single APIF or ITCIS
- Sovereign debt risks
- Valuation risks
- Credit rating risk
- Eurozone risks
- Risks of investing in collective investment schemes
- RMB currency and conversion risks
- PRC investment risk
- PRC tax risk with respect to capital gains
- Risk of investing in CIBM and/or Bond Connect
- Custodial risk
- Hedging risk
- Legal and regulatory risk
- Trading risks

3.4.9 Principal MPF Conservative Fund

The Principal MPF Conservative Fund is the required Constituent Fund as specified in section 37 of the General Regulation. The investment and operation of the Principal MPF Conservative Fund complies with all provisions of section 37 of the General Regulation. The Principal MPF Conservative Fund is denominated in HKD.

(a) Investment objective

The objective of the Principal MPF Conservative Fund is to at least earn a net return equal to the prescribed savings rate (which is broadly the average rate of interest on a HKD savings account) determined by the MPFA.

In the long term, the return of the Principal MPF Conservative Fund is expected to be similar to the bank saving rates in Hong Kong.

(b) Balance of investments

The Principal MPF Conservative Fund invests in a unit trust APIF. The APIF invests in a portfolio of bank deposits, short-duration securities and high-quality money market instruments denominated in HKD.

The target ranges of asset allocation and geographic allocation of the Principal MPF Conservative Fund are as follows:

Asset allocation	Range
Certificates of deposit	0 – 95%
Debt securities	0 – 95%
Cash and short-term investments (e.g. bills and deposits)	0 – 100%

Geographic allocation	Range
Hong Kong	100%

(c) Security lending and repurchase agreements

The Principal MPF Conservative Fund will not engage in security lending or repurchase agreements.

(d) Futures and options

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

(e) Risks

The risk profile of the Principal MPF Conservative Fund is generally regarded as low.

The investment in the Principal MPF Conservative Fund is different from placing funds on deposits with a bank or a deposit-taking company in that there is no guarantee on the capital value or interest on investment made in the Principal MPF Conservative Fund. The Principal MPF Conservative Fund is not subject to the supervision of the Hong Kong Monetary Authority.

The Principal MPF Conservative Fund's exposure to capital gains and losses associated with interest rate fluctuations is mitigated because the Principal MPF Conservative Fund will indirectly invest mainly in a variety of relatively short duration securities and bank deposits.

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 risks
- Interest rate risk
- Market risk
- Accounting standards and disclosure
- Counterparty risk
- Security risk
- Credit risk
- Investment grade bond risk
- Liquidity risk
- Risks relating to investing solely in a single APIF or ITCIS
- Sovereign debt risks
- Valuation risks
- Credit rating risk
- Risks of investing in collective investment schemes
- Custodial risk

3.4.10 Principal Core Accumulation Fund

(a) Investment objective

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

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.

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.

(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 approved ITCISs and/or unit trust APIFs. The investment manager of the Principal Unit Trust Umbrella Fund – Principal Core Accumulation Fund has the discretion, subject to the limits 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 approved ITCISs and/or unit trust APIFs. Please refer to the following product structure chart illustrating the fund structure of the Principal Core Accumulation Fund:

MPF Scheme/ Constituent Fund(s)	Investment Manager: Principal Asset Management Company (Asia) Limited	**Principal Core Accumulation Fund**			
		Feeder Fund			
APIF		**Principal Unit Trust Umbrella Fund - Principal Core Accumulation Fund**			
APIF/ITCIS		**Principal Life Style Fund - Principal International Equity Fund**	**Principal Life Style Fund - Principal International Bond Fund**	**Principal Life Style Fund - Principal Hong Kong Dollar Savisngs Fund**	**Other APIF(s) and/or ITCIS(s)**

Through such underlying investment, the Principal Core Accumulation Fund will hold 60% of its net assets in higher risk assets, with the remainder investing in lower risk assets. The asset allocation to higher risk assets may vary between 55% and 65% due to differing price movements of various equity and bond markets. While the Principal Unit Trust Umbrella Fund – Principal Core Accumulation Fund may invest into actively and/or passively managed approved ITCISs and/or APIFs, the Principal Core Accumulation Fund and the Principal Unit Trust Umbrella Fund – Principal Core Accumulation Fund itself 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, the investment manager of the Principal Unit Trust Umbrella Fund – Principal Core Accumulation Fund may allocate the assets among the approved ITCISs and/or unit trust APIFs in such proportions at its discretion in the interest of the unitholders of the Principal Unit Trust Umbrella Fund – Principal Core Accumulation Fund.

There is no prescribed allocation for investments in any specific countries or currencies.

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 engage in security lending or enter into 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 financial options contracts.

(e) Risks

Due to the Principal Core Accumulation Fund's relatively high exposure to equities, the risk profile of the Principal Core Accumulation Fund is generally regarded as moderate to high. 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.

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 risks
- 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
- Risks of investing in collective investment schemes
- RMB currency and conversion risks
- PRC investment risk
- PRC tax risk with respect to capital gains
- Risk of investing in CIBM and/or Bond Connect
- Custodial risk
- Hedging risk
- Legal and regulatory risk
- Trading risks
- Key risks relating to the DIS
- Risks relating to investing solely in a single APIF or ITCIS

3.4.11 Principal Age 65 Plus Fund

(a) Investment 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. The Principal Age 65 Plus Fund is denominated in HKD.

The Principal Age 65 Plus Fund targets to hold 20% of its net 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.

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.

(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 approved ITCISs and/or unit trust APIFs. The investment manager of the Principal Unit Trust Umbrella Fund – Principal Age 65 Plus Fund has the discretion, subject to the limits 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 ITCISs and/or unit trust APIFs. Please refer to the following product structure chart illustrating the fund structure of the Principal Age 65 Plus Fund:

<table>
<tr><td>MPF Scheme/ Constituent Fund(s)</td><td>Investment Manager: Principal Asset Management Company (Asia) Limited</td><td colspan="4">Principal Age 65 Plus Fund</td></tr>
<tr><td></td><td></td><td colspan="4">Feeder Fund</td></tr>
<tr><td>APIF</td><td></td><td colspan="4">Principal Unit Trust Umbrella Fund - Principal Age 65 Plus Fund</td></tr>
<tr><td>APIF/ITCIS</td><td></td><td>Principal Life Style Fund - Principal International Equity Fund</td><td>Principal Life Style Fund - Principal International Bond Fund</td><td>Principal Life Style Fund - Principal Hong Kong Dollar Savings Fund</td><td>Other APIF(s) and/or ITCIS(s)</td></tr>
</table>

Through such underlying investment, the Principal Age 65 Plus Fund will hold 20% of its net 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. While the Principal Unit Trust Umbrella Fund – Principal Age 65 Plus Fund may invest into actively and/or passively managed approved ITCISs and/or APIFs, the Principal Age 65 Plus Fund and the Principal Unit Trust Umbrella Fund – Principal Age 65 Plus Fund itself 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, the investment manager of the Principal Unit Trust Umbrella Fund – Principal Age 65 Plus Fund may allocate the assets among the approved ITCISs and/or unit trust APIFs in such proportions at its discretion in the interest of the unitholders of the Principal Unit Trust Umbrella Fund – Principal Age 65 Plus Fund.

There is no prescribed allocation for investments in any specific countries or currencies.

The Principal Age 65 Plus Fund will maintain an effective currency exposure to HKD of not less than 30% through currency hedging operations by entering into currency forward contracts 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 engage in security lending or enter into 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 financial options contracts.

(e) Risks

Due to the Principal Age 65 Plus Fund's investments being mainly in lower risk assets (such as global bonds and money market instruments), the risk profile of the Principal Age 65 Plus Fund is generally regarded as moderate. 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.

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 risks
- 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
- Risks of investing in collective investment schemes
- RMB currency and conversion risks
- PRC investment risk
- PRC tax risk with respect to capital gains
- Risk of investing in CIBM and/or Bond Connect
- Custodial risk
- Hedging risk
- Legal and regulatory risk
- Trading risks
- Key risks relating to the DIS
- Risks relating to investing solely in a single APIF or ITCIS

3.5 Classes of units

The classification of units is summarized as follows:

Constituent Funds	Classes of Units
Principal MPF Conservative Fund Principal Hang Seng Index Tracking Fund Principal Asian Bond Fund Principal Core Accumulation Fund Principal Age 65 Plus Fund Any other Constituent Funds established on or after 1 April 2017	Class N
Other Constituent Funds	Class D[Note 1] and Class I [Note 2]

The Trustee reserves the right to issue additional classes of units of any of the Constituent Funds in the future.

Note 1

- Units of a Constituent Fund which were subject to the "direct charge option" prior to the classification on 30 December 2011 shall continue as units of the Class D units.

- For self-employed persons who join the Scheme on or after 1 October 2004, Class D units will not be made available to them, and fees which are applicable to both participating employers and employees will also apply to the self-employed persons. For personal account members, Class D units will not be made available to them, and only those fees indicated in the fee table that are payable by the employees will apply.

- For participating employers and their employees who join the Scheme on or after 1 October 2004, Class D units will not be made available to them.

- However, the Trustee reserves the sole and absolute discretion to offer Class D units to participating employers, their employees and self-employed persons in exceptional circumstances, such as where they join the Scheme as a result of scheme transfers, or mergers, acquisitions or other corporate restructuring.

Note 2

Units which are subject to the “indirect charge option” prior to 30 December 2011 shall continue as Class I units of the relevant Constituent Fund thereafter.

3.6 Investment and borrowing restrictions

All Constituent Funds are subject to the investment and borrowing restrictions in schedule 1 to the General Regulation, and all Constituent Funds will not engage in security lending.

In case of restructuring of the Scheme, or merger, division or termination of any Constituent Fund(s), the Trustee will notify the Scheme’s participants three months (or a shorter period as agreed by the SFC) prior to the restructuring, merger, division or termination taking effect.

3.7 Information on performance of the Principal Core Accumulation Fund and the Principal Age 65 Plus Fund

The fund performance (including the definition and actual figures of the fund expense ratio) of the Principal Core Accumulation Fund and the Principal Age 65 Plus Fund will be published in the fund factsheets (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 Principal Core Accumulation Fund and the Principal Age 65 Plus Fund. 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 Portfolio.

The fund performance is calculated in HKD on net asset value to net asset value 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.

4. RISKS

4.1 Overview

Each Constituent Fund is subject to market fluctuations and 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 Scheme and the following website: www.principal.com.hk.

4.2 General risks

4.2.1 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.

4.2.2 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.

4.2.3 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.

4.2.4 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.

4.2.5 Foreign exchange risk

Investments (including, where applicable, any underlying APIF or 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.

4.2.6 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.

4.2.7 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.

4.2.8 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.

4.2.9 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.

4.2.10 Liquidity risk

As investments may be made in instruments where the volume of transactions fluctuates 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 underlying APIF or ITCIS, which in turn affects the value of the Constituent Fund.

4.2.11 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.

4.2.12 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 underlying APIFs or ITCISs trading in these markets, which in turn affects the value of the relevant Constituent Fund.

4.2.13 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.

4.2.14 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 underlying APIF or ITCIS investing in such debt securities to participate in the restructuring of such debts. The underlying APIF or ITCIS may suffer significant losses when there is a default of sovereign debt issuers thereby affecting the value of the Constituent Fund.

4.2.15 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.

4.2.16 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.

4.2.17 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.

4.2.18 Custodial risk

Custodians or sub-custodians may be appointed in local markets for the purpose of safekeeping assets in those markets. Where an underlying APIF or ITCIS invests in markets where custodial and/or settlement systems are not fully developed, the assets of such underlying APIF or ITCIS may be exposed to custodial risk. In case of liquidation, bankruptcy or insolvency of a custodian or sub-custodian, the relevant underlying APIF or ITCIS may take a longer time to recover its assets or, in extreme cases, be unable to recover its assets. The costs borne by an underlying APIF or ITCIS in investing and holding investments in such markets will be generally higher than in an organized securities market, which may adversely affect the net asset value of the underlying APIF or ITCIS and so the relevant Constituent Fund, and investors may as a result suffer loss.

4.2.19 Hedging risk

The Investment Manager is 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.

4.2.20 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 or ITCIS. Where the underlying APIF or ITCIS of a Constituent Fund is, for whatever reason, adversely affected or terminated, the feeder Constituent Fund will likewise be affected and may, in certain circumstances, be terminated.

4.2.21 Risks relating to investing in an APIF or an 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 Investment Manager may not be able to invest in other markets.

4.2.22 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.

4.2.23 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 Principal Asset Management Company (Asia) Limited 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 unit trust APIFs/ITCISs will result in an effective diversification of investment risks.

4.3 Risks associated with investments in the PRC

4.3.1 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.

4.3.2 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.

4.3.3 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 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 underlying 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 net asset value of the relevant underlying APIF may decrease more than anticipated as such underlying APIF 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 underlying APIF, a disproportionately higher amount of tax liabilities as compared to that borne at the time of investment in such underlying APIF.

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 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. 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.

4.3.4 Risk associated with investments utilizing Stock Connect

(a) Legal and regulatory risk

Underlying APIFs may invest in China A-Shares through Stock Connect programmes 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 programmes are novel in nature and the relevant rules and regulations will be subject to change which may have potential retrospective effect.

(b) Trading risks

Trading in China A-Shares through Stock Connect programmes 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, investments through such programmes are not covered by Hong Kong's Investor Compensation Fund. Where a suspension in the trading through a programme is effected, the relevant underlying APIF's ability to invest in China A-Shares or access the PRC market through such programme will be adversely affected. In such events, the relevant underlying APIF's ability to achieve its investment objective could be negatively affected, which may adversely affect the net asset value of the relevant Constituent Fund and investors may as a result suffer loss.

4.3.5 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-offer spreads. This may incur material trading and realization 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.

4.4 Risk associated with specific Constituent Fund

4.4.1 Risks relating solely to investment in the Principal HK Dollar Savings Fund

Investment in the Principal HK Dollar Savings Fund is not equivalent to placing funds on deposit with a bank or a deposit-taking company. A member's rights on redemption of any units held for the account of the member in the Principal HK Dollar Savings Fund is 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. The Principal HK Dollar Savings Fund is not subject to the supervision of the Hong Kong Monetary Authority.

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

(a) Tracking of The Tracker Fund of Hong Kong level

Changes in the net asset value of The Tracker Fund of Hong Kong, the underlying ITCIS of the Principal Hang Seng Index Tracking Fund, are unlikely to replicate exactly changes in the Hang Seng Index. This is due to, among other things, the fees and expenses payable by The Tracker Fund of Hong Kong and transaction fees and/or stamp duty incurred in adjusting the composition of The Tracker Fund of Hong Kong's portfolio because of changes in the Hang Seng Index and dividends received, but not distributed, by The Tracker Fund of Hong Kong. In addition, as a result of the unavailability of the 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 Tracker Fund of Hong Kong's portfolio. During times when Index Shares are unavailable or when the Investment Manager determines it is in the best interests of The Tracker Fund of Hong Kong to do so, The Tracker Fund of Hong Kong may maintain a small cash position or invest in other permitted contracts or investments until Index Shares become available. The Tracker Fund of Hong Kong may also hold future Index Shares and/or former Index Shares. Such costs, expenses, cash balances, timing differences or holdings could cause The Tracker Fund of Hong Kong's net asset value to be lower or higher than the relative level of the Hang Seng Index.

(b) 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 is 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 of the fund and (ii) fee deduction from the Principal Hang Seng Index Tracking Fund as disclosed in section 5 *(Fees and charges)*.

(c) Passive investment

Since the Principal Hang Seng Index Tracking Fund and The Tracker Fund of Hong Kong are not actively managed, neither the Investment Manager of the Principal Hang Seng Index Tracking Fund nor the investment manager of The Tracker Fund of Hong Kong 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.

(d) Trade at a discount or premium to net asset value

The Tracker Fund of Hong Kong may trade at a discount or premium to net asset value. The market price of the units in The Tracker Fund of Hong Kong may sometimes trade above or below its net asset value. 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 net asset value of The Tracker Fund of Hong Kong. The deviation from net asset value 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 index. The "bid/ask" spread, i.e. 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 net asset value. The bid/ask spread can widen during periods of market volatility or market uncertainty, thereby increasing the deviation from net asset value.

(e) Hang Seng Index risk factors

(i) About the Hang Seng Index

The Hang Seng Index is published and compiled by Hang Seng Indexes Company Limited pursuant to a licence from Hang Seng Data Services Limited. The mark and name of Hang Seng Index are proprietary to Hang Seng Data Services Limited. Hang Seng Indexes Company Limited and Hang Seng Data Services Limited have agreed to the use of, and reference to, the Hang Seng Index by the Trustee in connection with the Principal Hang Seng Index Tracking Fund, BUT NEITHER HANG SENG INDEXES COMPANY LIMITED NOR HANG SENG DATA SERVICES LIMITED WARRANTS OR REPRESENTS OR GUARANTEES TO ANY BROKER OR HOLDER OF THE PRINCIPAL HANG SENG INDEX TRACKING FUND OR ANY OTHER PERSON: (I) THE ACCURACY OR COMPLETENESS OF THE HANG SENG INDEX AND ITS COMPUTATION OR ANY INFORMATION RELATED THERETO; OR (II) THE FITNESS OR SUITABILITY FOR ANY PURPOSE OF THE HANG SENG INDEX OR ANY COMPONENT OR DATA COMPRISED IN IT; OR (III) THE RESULTS WHICH MAY BE OBTAINED BY ANY PERSON FROM THE USE OF THE HANG SENG INDEX OR ANY COMPONENT OR DATA COMPRISED IN IT FOR ANY PURPOSE, AND NO WARRANTY OR REPRESENTATION OR GUARANTEE OF ANY KIND WHATSOEVER RELATING TO THE HANG SENG INDEX IS GIVEN OR MAY BE IMPLIED. The process and basis of computation and compilation of the Hang Seng Index and any of the related formula or formulae, constituent stocks and factors may at any time be changed or altered by Hang Seng Indexes Company Limited without notice. TO THE EXTENT PERMITTED BY APPLICABLE LAW, NO RESPONSIBILITY OR LIABILITY IS ACCEPTED BY HANG SENG INDEXES COMPANY LIMITED OR HANG SENG DATA SERVICES LIMITED: (I) IN RESPECT OF THE USE OF AND/OR REFERENCE TO THE HANG SENG INDEX BY THE TRUSTEE IN CONNECTION WITH THE PRINCIPAL HANG SENG INDEX TRACKING FUND; OR (II) FOR ANY INACCURACIES, OMISSIONS, MISTAKES OR ERRORS OF HANG SENG INDEXES COMPANY LIMITED IN THE COMPUTATION OF THE HANG SENG INDEX; OR (III) FOR ANY INACCURACIES, OMISSIONS, MISTAKES, ERRORS OR INCOMPLETENESS OF ANY INFORMATION USED IN CONNECTION WITH THE COMPUTATION OF THE HANG SENG INDEX WHICH IS SUPPLIED BY ANY OTHER PERSON; OR (IV) FOR ANY ECONOMIC OR OTHER LOSS WHICH MAY BE DIRECTLY OR INDIRECTLY SUSTAINED BY ANY BROKER OR HOLDER OF THE PRINCIPAL HANG SENG INDEX TRACKING FUND OR ANY OTHER PERSON DEALING WITH 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.

There is no assurance that the license granted to the Trustee for the use of, and reference to, the Hang Seng Index, will be granted for the operation of the Principal Hang Seng Index Tracking Fund for as long as the Trustee deems necessary, and in the event that the license is terminated and that no substitute can be obtained, the Principal Hang Seng Index Tracking Fund may have to be terminated.

The Hang Seng Indexes Company Limited and Hang Seng Data Services Limited are independent of Principal Asset Management Company (Asia) Limited, the Investment Manager of the Principal Hang Seng Index Tracking Fund, or its connected persons.

As of 28 February 2020, the Hang Seng Index comprises 50 constituent stocks representing approximately 46.67% of the total market value of all main board primary listings excluding foreign companies. The top ten constituent stocks of the Hang Seng Index are as follows:

No.	Company	Weighting (%)
1.	Tencent	11.78%
2.	AIA	9.83%
3.	HSBC Holdings	9.26%
4.	CCB	7.89%
5.	Ping An	5.60%
6.	ICBC	4.55%
7.	China Mobile	4.36%
8.	HKEX	3.55%
9.	Bank of China	2.83%
10.	CNOOC	2.21%

(ii) Hang Seng Index is subject to fluctuations

The investment objective of The Tracker Fund of Hong Kong 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 Tracker Fund of Hong Kong will vary or decline accordingly. This will in turn have similar impact on the Principal Hang Seng Index Tracking Fund.

(iii) 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 Tracker Fund of Hong Kong 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 Tracker Fund of Hong Kong. This will in turn have similar impact on the Principal Hang Seng Index Tracking Fund.

(iv) 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 Hong Kong Stock Exchange and be added to the Hang Seng Index. If this happens, the weighting or composition of the shares owned by The Tracker Fund of Hong Kong would be changed as considered appropriate by the investment manager in order to achieve the investment objective. Thus, an investment in The Tracker Fund of Hong Kong 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 Tracker Fund of Hong Kong.

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

The investment manager and the trustee of The Tracker Fund of Hong Kong 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 Tracker Fund of Hong Kong and to use certain trade marks or any copyright in the Hang Seng Index. The Tracker Fund of Hong Kong may not be able to fulfill its objective and may be terminated if the licence agreement (the "**HSI Licence Agreement**") between Hang Seng Data Services Limited, Hang Seng Indexes Company Limited, the trustee and the investment manager of The Tracker Fund of Hong Kong is terminated. The Tracker Fund of Hong Kong 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 Tracker Fund of Hong Kong, the same or substantially similar formula for the method of calculation as used in calculating the Hang Seng Index. In such circumstances, 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 underlying fund. The Principal Hang Seng Index Tracking Fund may also be terminated if no suitable replacement underlying fund is found.

(vi) Compilation of Hang Seng Index

No warranty, representation or guarantee is given as to the accuracy or completeness of the Hang Seng Index and its computation or any information related thereto. The process and the basis of computing and compiling the Hang Seng Index and any of its related formulae, constituent companies and factors may at any time be changed or altered by Hang Seng Indexes Company Limited without notice. Hang Seng Indexes Company Limited and Hang Seng Data Services Limited accept no responsibility or liability for any inaccuracies, omissions, mistakes or errors of Hang Seng Indexes Company Limited in the computation of the Hang Seng Index or for any economic or other loss which may be directly or indirectly sustained by an investor as a result thereof. 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.

4.5 Key risks relating to the DIS

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

4.5.1 Limitations on the DIS

(a) Age as the sole factor in determining the asset allocation under 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 does it take into account a 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 Scheme.

(b) Pre-set asset allocation

Members should note that the Principal Core Accumulation Fund and the Principal Age 65 Plus Fund 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 Principal Core Accumulation Fund and the Principal Age 65 Plus Fund will limit the ability of the investment manager of the underlying funds of each of the

Principal Core Accumulation Fund and the Principal Age 65 Plus Fund 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 Principal Core Accumulation Fund and the Principal Age 65 Plus Fund thought it appropriate to do so.

(c) Annual de-risking between the Principal Core Accumulation Fund and the Principal Age 65 Plus Fund

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 operate 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 Principal Core Accumulation Fund and the Principal Age 65 Plus Fund

In order to maintain the prescribed allocation between the higher risk assets and lower risk assets within each of the Principal Core Accumulation Fund and the Principal Age 65 Plus Fund, the investments of each of the Principal Core Accumulation Fund and Principal Age 65 Plus Fund 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 Principal Core Accumulation Fund and the Principal Age 65 Plus Fund 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 Principal Core Accumulation Fund and the Principal Age 65 Plus Fund 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 Principal Core Accumulation Fund and the Principal Age 65 Plus Fund 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.

4.5.2 General investment risk related to the 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 the 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 section 4.2 *(General risks).*

4.5.3 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 strategy (for example through early withdrawal of accrued benefits or switching into other funds) will affect that balance.

4.5.4 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

5.1 Fee tables

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

(A) Joining fee & annual fee			
Types of fees	Current amount (HKD or % of contribution amount)		Payable by
	Members are offered Class D/Class N units of the relevant Constituent Funds[(a)]	Members are offered Class I/Class N units of the relevant Constituent Funds[(a)]	
Joining Fee[1]	N/A	Nil	N/A
Annual Fee[2, (b)]	First HKD250,000, Up to 3.5% Next HKD250,000, Up to 3.0% Next HKD500,000, Up to 2.5% Excess, Up to 2.0% >=HKD1,000,000, Negotiable	Nil	Participating employer and self-employed persons* (By separated billing, not directly deducted from member's contribution)

* No annual fee shall be charged to or imposed on a self-employed person who has all or part of his accrued benefits invested in the Principal Core Accumulation Fund and/or the Principal Age 65 Plus Fund as at the time when the annual fee is otherwise payable.

(B) Fees and charges payable arising from transactions in individual member's account			
Types of fees & charges	Name of Constituent Fund	Current level Class D/Class I/Class N units[(a)]	Payable by
Contribution Charge[3]	All Constituent Funds	N/A	N/A
Offer Spread[4] (% of unit NAV)	Principal MPF Conservative Fund	N/A	N/A
	All other Constituent Funds	Nil	Member
Bid Spread[5, (c)] (% of unit NAV)	Principal MPF Conservative Fund	N/A	N/A
	All other Constituent Funds	Nil	Member
Withdrawal Charge[6]	All Constituent Funds	N/A	N/A

(C) Fund operating charges & expenses of Constituent Funds[d]					
Types of charges & expenses	**Name of Constituent Fund**	**Current level (% p.a. of NAV)**			**Deducted from**
		Class D units[a]	**Class I units[a]**	**Class N units[a]**	
Management Fee[7]	Principal MPF Conservative Fund[e]	N/A	N/A	0.95%	Relevant Constituent Fund assets
	Principal Hang Seng Index Tracking Fund	N/A	N/A	0.89%	
	Principal Asian Bond Fund	N/A	N/A	0.99%	
	Principal HK Dollar Savings Fund	0.95%	0.99%	N/A	
	Principal Long Term Guaranteed Fund[f]	1.50%	2.00%	N/A	
	Principal Aggressive Strategy Fund	1.25%	1.49%	N/A	
	Principal Stable Yield Fund	1.25%	1.49%	N/A	
	Principal Core Accumulation Fund	N/A	N/A	0.75%	
	Principal Age 65 Plus Fund	N/A	N/A	0.75%	
	All other Constituent Funds	1.25%	1.49%	N/A	
Guarantee Charge[8]	Principal Long Term Guaranteed Fund	N/A			N/A
Other expenses (Expenses are deducted from Constituent Funds' assets)	0.03% per annum of net asset value compensation fund levy (where applicable), custodian fees (to the extent permitted by the MPF Ordinance), valuation fees (to the extent permitted by the MPF Ordinance), auditor's fees, legal fees, licensing fees payable to index provider(s) (where applicable), Trustee's indemnity insurance, cost incurred in regulatory approval and the maintenance of the Scheme, the costs of preparation, distribution of this MPF Scheme Brochure. The Trustee has the discretion to waive part or all of the foregoing expenses, fees and charges. The establishment costs of the Principal Core Accumulation Fund and the Principal Age 65 Plus Fund, which amount to approximately HKD150,000 for each Constituent Fund, were amortised against the net asset value of the Principal Core Accumulation Fund and the Principal Age 65 Plus Fund over the first five accounting periods of such Constituent Funds. The establishment costs of other Constituent Funds have been fully amortised. Certain out-of-pocket recurrent expenses relating to the Principal Core Accumulation Fund and the Principal Age 65 Plus Fund are subject to a statutory annual limit of 0.20% of the net asset value of each of those Constituent Funds and will not be charged to or imposed on the Constituent Fund in excess of that amount. Please refer to section 5.3 *(Fees and out-of-pocket expenses of the DIS)* for details.				

(D) Fees and charges payable out of the underlying funds			
Types of charges & expenses	**Name of Constituent Fund**	**Current level (% p.a. of NAV) Class D/Class I/Class N units[(a)]**	**Deducted from**
Management Fees[7]	Principal Hang Seng Index Tracking Fund	For first HKD15 billion 0.1%p.a. For next HKD15 billion 0.09%p.a. For next HKD15 billion 0.06%p.a. Thereafter 0.05%p.a.	Relevant underlying fund assets
	All other Constituent Funds	Nil	
Guarantee Charge[8]	Principal Long Term Guaranteed Fund	Up to 1.00%	Relevant underlying fund assetss
Other expenses (Expenses are deducted from underlying funds' assets)	Including the costs incurred in the establishment, structuring, management, maintenance and administration of the underlying funds, the costs of investing and realizing the investments, custodian and sub-custodian fees, the fees and expenses of auditors, valuation costs, legal fees, indemnity insurance, the costs incurred in connection with any listing or regulatory approval and preparation, printing and distribution of any explanatory memorandum/offering document, any audited accounts or interim reports which are sent to the unitholders, the costs of holding meetings of unitholders, and the costs incurred in effecting and maintaining insurance required by the MPF Ordinance and annual registration fee. For The Tracker Fund of Hong Kong in which the Principal Hang Seng Index Tracking Fund invests, the registrar and the conversion agent shall also charge a monthly fee for the services they render. For details, please refer to the prospectus of The Tracker Fund of Hong Kong.		

(E) Fees and charges for the provision of additional services			
Types of fees & charges	**Name of Constituent Fund**	**Current level Class D/Class I/Class N units[(a)]**	**Payable by**
Handling Charge[9]	All Constituent Funds	Nil for the first four withdrawals in each financial year; thereafter, up to HKD300 per withdrawal	Self-employed person and personal account member*

* No handling charge shall be charged to or imposed on a self-employed person or personal account member if such self-employed person or personal account member has all or part of his accrued benefits invested in the Principal Core Accumulation Fund and/or the Principal Age 65 Plus Fund as at the time when the Trustee receives the valid withdrawal instruction from such self-employed person or personal account member.

5.1.1 Definitions for fees and charges table

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

1) "**Joining Fee**" means the one-off fee charged by the Trustee/Sponsor and payable by the participating employers and/or members upon joining the Scheme.

2) “**Annual Fee**” means the fee charged by the Trustee/Sponsor on an annual basis and payable by the participating employers and/or members of the Scheme.

3) “**Contribution Charge**” means the fee charged by the Trustee/Sponsor against any contributions paid to the Scheme. This fee is usually charged as a percentage of contributions and will be deducted from the contributions. This charge does not apply to the Principal MPF Conservative Fund.

4) “**Offer Spread**” is charged by the Trustee/Sponsor upon subscription of units of a Constituent Fund by a member. Offer Spread does not apply to the Principal MPF Conservative Fund. Also, in respect of a member or participating employer who is a Former S500 Member or Former S500 Employer, as the case may be, Offer Spread does not apply to the Principal Long Term Guaranteed Fund. Offer Spread for a transfer of accrued benefits 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.

5) “**Bid Spread**” is charged by the Trustee/Sponsor upon redemption of units of a Constituent Fund by a member. Bid Spread does not apply to the Principal MPF Conservative Fund. Also, in respect of a member or participating employer who is a Former S500 Member or Former S500 Employer, as the case may be, Bid Spread does not apply to the Principal Long Term Guaranteed Fund. Bid Spread for a transfer of accrued benefits 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. Bid Spread is currently waived by the Trustee in respect of all members and participating employers.

6) “**Withdrawal Charge**” means the fee charged by the Trustee/Sponsor upon withdrawal of accrued benefits from the Scheme. 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.

7) “**Management Fees**” include fees paid to the Trustee, Custodian, Administrator, Investment Manager (including fees based on fund performance, if any) and Sponsor for providing their services to the relevant Constituent Fund. Such fees are usually charged as a percentage of the net asset value of the Constituent Fund. Except for the Principal Hang Seng Index Tracking Fund, the Management Fees at the Constituent Fund level as set out in table (C) above are inclusive of the Management Fees at the APIF level. In respect of the Principal Hang Seng Index Tracking Fund, the total Management Fees imposed at the Constituent Fund level and the APIF level is the aggregate of the relevant percentages as set out in tables (C) and (D) above. In the case of the Principal Core Accumulation Fund and the Principal Age 65 Plus Fund, 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 of the Principal Core Accumulation Fund and the Principal Age 65 Plus Fund are subject to a statutory daily limit equivalent to 0.75% p.a. of the NAV of the Constituent Fund which applies across both the Constituent Fund and underlying funds.

The breakdown of the Management Fees payable out of each of the Constituent Funds is as follows:

Constituent Fund	Constituent Fund Level (% p.a. of net asset value)				
	Sponsor Fee	Trustee/Administrator Fee			Investment Management Fee
		Class D	Class I	Class N	
Principal MPF Conservative Fund	0.20	N/A	N/A	0.65	0.10
Principal Hang Seng Index Tracking Fund	0.20	N/A	N/A	0.64	0.05
Principal Asian Bond Fund	0.20	N/A	N/A	0.59	0.20
Principal HK Dollar Savings Fund	0.20	0.65	0.69	N/A	0.10
Principal Long Term Guaranteed Fund	0.20	1.10	1.60	N/A	0.20
Principal Aggressive Strategy Fund	0.20	0.68	0.92	N/A	0.37
Principal Stable Yield Fund	0.20	0.70	0.94	N/A	0.35
Principal Global Growth Fund	0.20	0.70	0.94	N/A	0.35
Principal Long Term Accumulation Fund	0.20	0.70	0.94	N/A	0.35
Principal Core Accumulation Fund	Nil	N/A	N/A	0.50	0.25
Principal Age 65 Plus Fund	Nil	N/A	N/A	0.50	0.25

- "N/A" appearing in a cell under any of the columns "Class D", "Class I" or "Class N" means the relevant class(es) of units are not issued in respect of the relevant Constituent Fund.

- The investment management fees of these Constituent Funds, except for the Principal Hang Seng Index Tracking Fund, are only charged at the Constituent Fund level. The Investment Manager of these Constituent Funds will pay, from its own funds, a fee to the investment manager and/or its delegate(s) at the underlying fund level.

The breakdown of the underlying fund level management fees payable out of each of the Constituent Funds is as follows:

Constituent Fund	Underlying Fund Level (% p.a. of net asset value)	
	Trustee Fee	Investment Management Fee
Principal Hang Seng Index Tracking Fund	Up to 0.05	Up to 0.05
All other Constituent Funds	Nil	Nil

8) "**Guarantee Charge**" refers to an amount that is deducted out of the assets of a guaranteed fund for the purpose of providing the guarantee. This fee is usually charged as a percentage of the net asset value of a guaranteed fund. The term "Guarantee Charge" is given the name of "Reserve charge" in the Master Trust Deed.

9) "**Handling Charge**" means the fee charged by the Trustee/Sponsor upon withdrawal of accrued benefits attributable to voluntary contributions by self-employed persons or personal account members. The first four withdrawals in each financial year will be free of charge but starting from the fifth withdrawal in each financial year, the Trustee may impose a fee of up to HKD300 on each withdrawal. The Handling Charge will be deducted from the withdrawal amount.

Handling Charge shall not be charged to or imposed on a self-employed person or personal account member if such individual has all or part of his accrued benefits invested in the Principal Core Accumulation Fund and/or the Principal Age 65 Plus Fund as at the time when the Trustee receives the valid withdrawal instruction from such individual.

5.1.2 Explanatory notes

In respect of any increase in fees and charges from the current level as stated, at least three months' prior notice must be given to all members and participating employers.

(a) The Class D and Class I units of each Constituent Fund will have different rates of guarantee under the Principal Long Term Guaranteed Fund, and different rates of annual fee and management fee.

Before 30 December 2011, Class D units were subject to the "direct charge option", while Class I units were subject to the "indirect charge option". From 30 December 2011, the "direct charge option" and "indirect charge option" ceased to be applicable. The difference between the management fees of the two options is reflected in the different levels of management fees for Class D units and Class I units. Further, the difference between the management fees in the two classes of units will be reflected in their unit value and will not be deducted in the form of units.

(b) The Annual Fee is only negotiable if at the time of joining the Scheme the participating employer informs the Trustee that the annual contribution is equal to or greater than HKD1 million. In the absence of such an indication or commitment, the fee scale will be applicable. Further, additional discount may apply to cases of equal to or greater than HKD10 million transfer assets.

(c) A Bid Spread of up to 1% (in the case of a member or participating employer who is a Former S500 Member or Former S500 Employer, as the case may be) or 5% (in any other case), as determined by the Trustee at its discretion may be deducted from the unit value of a Constituent Fund on redemption of the units from the Constituent Fund. Currently the spread is waived.

In respect of a member or participating employer who is a Former S500 Member or Former S500 Employer, as the case may be, any Offer Spread charged to the unit holdings of such a member or participating employer will not exceed 2% of the unit value of the Constituent Fund on subscription of the units of the Constituent Fund.

(d) There are no advertising fees/expenses charged to assets of the Constituent Funds.

(e) Please note that neither a Former S500 Employer nor a Former S500 Member will, in their respective capacities as such, be subject to other types of fees and charges under the Scheme which do not exist under the S500 Scheme, including the annual fee and the handling charge.

5.2 Fees and charges mechanism for the Principal MPF Conservative Fund

If the amount of income and profits derived from the investment of the Principal MPF Conservative Fund prior to the deduction of management fee and administrative expenses for a particular month exceeds the amount of interest that would be earned if the Principal MPF Conservative Fund had been placed on deposits in a HKD savings account at the prescribed savings rate, a portion of the management fee and administrative expenses not exceeding the excess may be deducted from the accrued benefits of the members.

However, if, for any particular month no portion of management fee and administrative expenses are deducted because the return from income and profits from the investment of the Principal MPF Conservative Fund are unable to meet the prescribed savings rate, or the amount of such fees and expenses deducted is less than the actual amount required, the deficiency may be rolled forward and deducted from the amount of any excess that may remain from any of the following 12 months after deducting the required management fee and administrative expenses of that month. If the deficiency still remains after the 12-month period, no additional deduction will be allowed thereafter.

For example, suppose the return before deducting the management fee and administrative expenses is 6.3% of the net asset value of the Principal MPF Conservative Fund, and the prescribed savings rate for the period is 5.0%, then an amount of management fee and administrative expenses of not more than 1.3% of the net asset value of the Principal MPF Conservative Fund may be deducted. If the return before deducting the management fee and administrative expenses is 4.8% of the net asset value of the Principal MPF Conservative Fund, and the prescribed savings rate for the period is 5.0%, then no management fee and administrative expenses can be deducted during that month.

Subject to the above provisions, all income and profits derived from the investment of the Principal MPF Conservative Fund net of management fee and administrative expenses after taking into account any losses arising from the investment of the Principal MPF Conservative Fund will be credited to the members according to their investments in the Principal MPF Conservative Fund.

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 Principal Core Accumulation Fund and the Principal Age 65 Plus Fund must not, in a single day, exceed a daily rate (being 0.75% per annum of the net asset value of each of these two Constituent Funds divided by the number of days in the year). The statutory daily limit of 0.75% per annum of the net asset value of the Constituent Fund applies across both the Constituent Fund and underlying funds.

The above aggregate payments for services (i.e. management fees) include, but are not limited to, the fees paid or payable for the services provided by the trustee, the administrator, the investment managers and the sponsor of the Scheme and the underlying APIFs of each of the Principal Core Accumulation Fund and the Principal Age 65 Plus Fund, and any of the delegates from these parties. In particular, such payments are in return for the trustee services carried out by the Trustee and the administrative functions in respect of the administrator 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 net asset value of each of the Constituent Funds and its underlying APIFs, 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 Principal Core Accumulation Fund and the Principal Age 65 Plus Fund or members who invest in each of the Principal Core Accumulation Fund and the Principal Age 65 Plus Fund, 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 Principal Core Accumulation Fund and the Principal Age 65 Plus Fund, shall not in a single year exceed 0.2% of the net asset value of each of the Principal Core Accumulation Fund and the Principal Age 65 Plus Fund. 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 net asset value and transaction costs incurred by the Principal Core Accumulation Fund and the Principal Age 65 Plus Fund in connection with recurrent acquisition of investments for the Principal Core Accumulation Fund and the Principal Age 65 Plus Fund (including, for example, costs incurred in acquiring underlying funds) and annual statutory expenses (such as compensation fund levy where relevant) of the Principal Core Accumulation Fund and the Principal Age 65 Plus Fund.

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 Principal Core Accumulation Fund and the Principal Age 65 Plus Fund. Such fees are not subject to the statutory caps mentioned in the preceding paragraphs.

5.4 Rebates

None of the Principal Trust Company (Asia) Limited, Principal Insurance Company (Hong Kong) Limited, Principal Asset Management Company (Asia) Limited or any of their respective connected persons may retain cash or other rebates from a broker or dealer in consideration of directing transactions in the investments of the Constituent Fund(s) to the broker or dealer, save that goods and services may be retained within the limitations set out by the SFC. Those permissible goods and services must be, among other things, of demonstrable benefit to the investors and consistent with best execution standards. They may include research and advisory services, portfolio analysis, data and quotation services etc. but may not include, among other things, travel, accommodation, entertainment or direct money payments.

5.5 On-going cost illustrations

A document that illustrates the on-going costs on contributions to the Constituent Funds in the Scheme (except for the Principal MPF Conservative Fund) is available for distribution with this MPF Scheme Brochure. For the illustrative example for the Principal MPF Conservative Fund, please refer to section 5.6 *(Illustrative example for the Principal MPF Conservative Fund)*. Before making any investment decisions concerning investments in the Scheme, you should ensure that you have the latest version of this document. A copy of this document 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.

5.6 Illustrative example for the Principal MPF Conservative Fund

5.6.1 Purpose of the example

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

The following figures are for illustration purpose only, and should not be viewed as an indication of future returns. Investment earnings may go down as well as up.

5.6.2 Assumptions

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;
(c) you have not switched your accrued benefits to other Constituent Funds during the financial period; and
(d) you have not transferred any accrued benefits into or out of the Scheme during the financial period.

Your company profile

(a) 5 employees (including yourself) of your participating employer participate in the Scheme;
(b) the monthly relevant income of each employee is HKD8,000;
(c) no voluntary contribution is made; and
(d) each of the other four employees has the same MPF account activities as yours.

Investment return and savings rate

(a) the monthly rate of investment return is 0.5% on total assets; and
(b) the prescribed savings rate is 3.25% per annum throughout the financial period.

Based on these assumptions, the total amounts of annual fees you need to pay under the Scheme (including those payable to the underlying APIF) in one financial period would be: HKD42.

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.

Investment involves risk and the value of the Constituent Fund may go up or down.

6. ADMINISTRATIVE PROCEDURES

6.1 Eligibility

There are the following types of members of the Scheme:

(a) Employee members

When employers decide to join the Scheme by setting up a participating plan for the benefits of their employees, employees will become eligible to participate in the Scheme within 60 days from the date of employment.

(b) Self-employed person

A person whose income, otherwise than in the capacity as an employee, derives from his production (in whole or in part) of goods or services in Hong Kong, or his trade in goods or services in or from Hong Kong, may participate in the Scheme by setting up a participating plan for his own benefits.

(c) Personal account member

A person who, having accrued benefits in the Scheme or another registered scheme, wishes to have those accrued benefits transferred to a personal account of the Scheme may also participate in the Scheme.

6.2 Steps to participate

To participate in the Scheme, you are required to complete and return the participation agreement/application form, or, in respect of a personal account member, the election form designed by the Trustee, to our appointed sales representative or directly to the head office of the Trustee. The Trustee has a duty to report to the MPFA of your participation in the Scheme.

6.3 Contributions

6.3.1 Mandatory contributions

As required by law and subject to any exemptions under the law, employee members and self-employed persons should contribute to the Scheme as prescribed by the MPF Ordinance or the General Regulation, of their relevant income as mandatory contributions. Participating employers should contribute to the Scheme in respect of their employee members at a prescribed percentage of the employee's relevant income as mandatory contributions.

If the relevant income of an employee member is less than the statutory minimum level of relevant income, he is not required to make mandatory contribution. The participating employer, however, must still pay its mandatory contribution of the prescribed percentage of the relevant income in respect of that employee member (up to a statutory maximum level of relevant income for that contribution period) in accordance with the MPF Ordinance.

If the relevant income of an employee member is more than the statutory maximum level of relevant income, an equivalent amount of mandatory contributions based on the prescribed percentage of the relevant income (up to a statutory maximum level of relevant income for that contribution period) must be made by both the participating employer and employee.

A self-employed person must contribute the prescribed percentage of his relevant income (up to a statutory maximum level of relevant income) if he earns not less than the statutory minimum level of relevant income in accordance with the MPF Ordinance.

All mandatory amounts contributed to the Scheme are immediately vested to the employee or self-employed person concerned as accrued benefits.

Personal account members are not required to make mandatory contributions.

6.3.2 Voluntary contributions

Participating employers, employee members and self-employed persons may choose to contribute more than the mandatory amount required. Such extra contributions will be treated as voluntary contributions, to which different scheme rules and vesting scales may apply.

Subject to the applicable vesting scale, members may withdraw their accrued benefits attributable to the voluntary contributions upon termination of their employment. Please also refer to section (D) *(Pro-rata calculation of qualifying balance)* of Appendix I *(Operation of the guarantee in respect of the Principal Long Term Guaranteed Fund)* for how the vesting scale should be applied if the member invests the voluntary contributions in the Principal Long Term Guaranteed Fund.

6.3.3 Mode of contribution

For employee members who have completed 60 days of employment, the participating employer will begin contribution from the date of employment. In the case of employee members whose wage period is not more than one month, they will begin contributing in respect of the relevant income earned from the wage period that commences after the 30th day of employment. For employees whose wage period is more than one month, they will begin contributing in respect of the relevant income earned after the last day of the calendar month in which the 30th day of employment falls.

Participating employers and employee members' contributions must be paid according to the actual payroll period such as bi-weekly or monthly. Self-employed persons can elect to pay contributions either monthly or annually.

All contributions must only be made to the Trustee.

6.4 MPF default investment strategy

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.

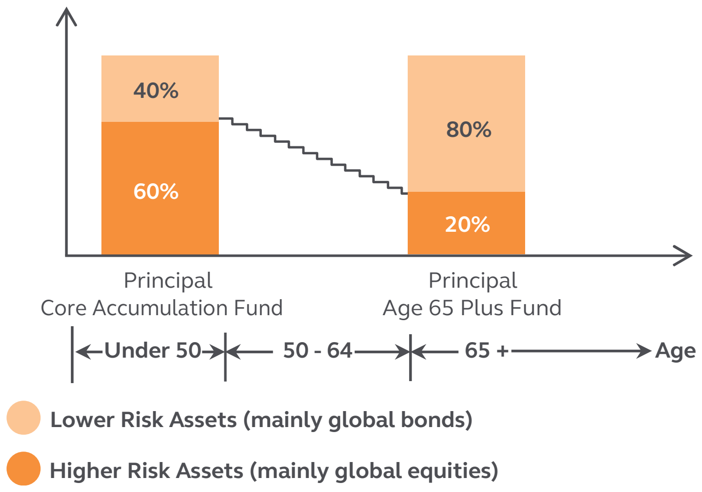
6.4.1 Asset allocation of the DIS

The DIS aims to balance the long-term effects of risk and return through investing in two Constituent Funds, 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 net asset value whereas the Principal Age 65 Plus Fund will invest around 20% in higher risk assets and 80% in lower risk assets. Both Constituent Funds 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.

6.4.2 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.

6.4.3 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 section 6.4.2 *(De-risking of the DIS)*, switching of the existing accrued benefits among the Principal Core Accumulation Fund and the Principal Age 65 Plus Fund 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 dealing day, then the investments will be moved on the next available dealing 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 dealing 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 dealing 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 Principal Core Accumulation Fund and the Principal Age 65 Plus Fund 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 +852 2827 1233 or visit the Trustee's website at www.principal.com.hk.

The number of units of the Principal Core Accumulation Fund and the Principal Age 65 Plus Fund that can be issued in the annual de-risking under the DIS shall be rounded down to three decimal places.

Members should be aware that the above de-risking will not apply where the member chooses the Principal Core Accumulation Fund and the Principal Age 65 Plus Fund as individual Constituent Fund choices (rather than as part of the DIS).

In summary, under the DIS:

- 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;

- 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 Principal Core Accumulation Fund and the Principal Age 65 Plus Fund as shown in the DIS De-risking Table in Diagram 2 below. The de-risking on the existing accrued benefits will be automatically carried out as described above;

- 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;

- if the member 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;

- for a deceased member, de-risking will cease once 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 the sufficient proof of such death, 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:

- 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 dealing day, the next available dealing day.

- 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 dealing day, the next available dealing day.

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

6.4.4 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 Principal Core Accumulation Fund and the Principal Age 65 Plus Fund is made at the point of annual de-risking and the proportion of the Principal Core Accumulation Fund and the Principal Age 65 Plus Fund 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 dealing days after the de-risking process has been completed.

6.4.5 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 Scheme. 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 benefits withdrawn or transferred out of the Scheme, whether or not the withdrawal is a partial withdrawal and regardless of the circumstances (e.g. refund/payment of statutory long service or severance pay). Benefits invested in the DIS and remaining in the Scheme will continue to be subject to the DIS. Also, members may change their investment mandates to invest in the DIS at any time.

6.4.6 Circumstances for accrued benefits to be invested in the DIS

(a) New accounts set up on or after 1 April 2017

(i) When members join the Scheme or set up a new account in the Scheme, 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:

(A) the DIS; and/or

(B) one or more Constituent Funds of their own choice (including the Principal Core Accumulation Fund and the Principal Age 65 Plus Fund) and according to their assigned allocation percentage(s).

(ii) 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.

(iii) 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.

(iv) Where a member has multiple capacities under the Scheme (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 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.

(b) 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:

(i) 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 of the Scheme (i.e. the Principal HK Dollar Savings Fund) (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 the 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:

Name of the Constituent Fund	Risk level
Original default investment fund	
Principal HK Dollar Savings Fund	Low
DIS Constituent Funds	
Principal Core Accumulation Fund	Moderate to high
Principal Age 65 Plus Fund	Moderate

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

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

(A) 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

(B) 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

(C) 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 (A), (B) or (C) 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 (A), (B) or (C) (as the case may be).

(iii) 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 Scheme 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.

(c) Treatment of benefits transferred from a contribution account to a personal account

Where a member ceases employment with a participating employer and:

(i) in the absence of his election to transfer the accrued benefits from such employment as described in section 6.7 *(Transferring accrued benefits to and from the Scheme)*, 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

(ii) 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.

6.5 Investment mandates

To invest in the Constituent Fund(s), members may simply designate their choices at the time of their enrolment. Their contributions will automatically be credited to the particular Constituent Fund(s) they have chosen according to the choice of Constituent Fund(s) made and percentage allocated.

They can switch their investment choices in the Constituent Fund(s) at any time thereafter without limitation at no extra charge. Members can notify the Trustee of their new investment choices by hard copy submission (such as by way of mail or facsimiles) of the form designated by the Trustee, or by online submission via our website (www.principal.com.hk), email or mobile apps, or through IVRS (interactive voice response system, e.g. our Principal Teletouch© service). **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 investment 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. Please note that the cut-off time for handling valid instructions for change of investment mandate submitted by fax or through website, mobile apps or IVRS shall be 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, mobile apps or IVRS is received by the Trustee before the cut-off time on a dealing day, it will be considered to be 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 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 are invested in the Principal HK Dollar Savings Fund immediately before 1 April 2017, 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 before 1 April 2017.

6.6 Switching

Subject to such requirements as the Trustee may impose from time to time, members may switch units between different Constituent Funds, provided that the percentage amount for switching is an integer percentage and the switch-in total must be 100%.

Any invalid switching instruction (e.g. the switch-in total is less than or exceeds 100%) will be rejected and will not be processed. **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.

In addition, members should note the following:

(a) where a member wishes to switch his Class I units in a Constituent Fund to another Constituent Fund, only Class I units in another Constituent Fund will be issued to such member, and the same applies to members holding Class D units in a Constituent Fund;

(b) if the switch-out Constituent Fund is the Principal MPF Conservative Fund, the Principal Hang Seng Index Tracking Fund, the Principal Asian Bond Fund, the Principal Core Accumulation Fund, the Principal Age 65 Plus Fund or any other Constituent Fund established on or after 1 April 2017, then the new units to be issued shall be of such class as is applicable to the relevant member; and

(c) if the switch-in Constituent Fund is one of the Constituent Funds in (b) above, then only Class N units will be issued.

Members may submit to the Trustee switching instructions in different ways including hard copy submission by mail or facsimiles, online submission via the Trustee's website, email or mobile apps, or through IVRS (interactive voice response system, e.g. Principal Teletouch© service). The cut-off time for handling valid switching instructions submitted by fax or through website, mobile apps or IVRS shall be 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 your switching instruction.

* *If a valid switching instruction submitted by fax or through website, mobile apps or IVRS is received by the Trustee before the cut-off time on a dealing day, it will be considered to be 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.*

6.7 Transferring accrued benefits to and from the Scheme

6.7.1 Transferring accrued benefits to the Scheme

If you are a member of another registered scheme, you may transfer a certain portion of your accrued benefits to the Scheme, in the manner described below.

(a) Accrued benefits relating to current employment

If you are an employee member of another registered scheme and have accrued benefits deriving from your own employee's mandatory contributions and/or voluntary contributions made in respect of your current employment, you may, at any time (but subject to the documentation governing that other registered scheme insofar it concerns the voluntary contributions), nominate to have such accrued benefits transferred to the Scheme by completing and returning to us a prescribed election form.

If you are already a personal account member of the Scheme, the accrued benefits transferred in accordance with the above will be held in your personal account within the Scheme. However, if you are not a personal account member of the Scheme, you will have to become a personal account member of the Scheme and the accrued benefits will be held in your personal account within the Scheme.

Please note that the above transfer arrangement does not apply when you cease to be employed by the relevant participating employer.

(b) Accrued benefits relating to former employment(s) and former self-employment(s)

If you are an employee member of another registered scheme and have accrued benefits deriving from mandatory contributions and/or voluntary contributions made by you and/or your employer(s) in respect of your former employment(s) or former self-employment(s), you may, at any time (but subject to the documentation governing that other registered scheme insofar it concerns the voluntary contributions), nominate to have such accrued benefits transferred to the Scheme by completing and returning to us a prescribed election form.

If you are already a member of the Scheme, the accrued benefits transferred in accordance with the above will be held in your contribution account or personal account within the Scheme as nominated by you. However, if you are not a member of the Scheme, you will have to become a personal account member of the Scheme and the accrued benefits will be held in your personal account within the Scheme.

(c) General

The accrued benefits that you transfer to the Scheme will be invested in the Constituent Fund(s) in accordance with your choice of Constituent Fund and percentage allocated. There is no limit on the number of transfer-in that you may make to the Scheme.

6.7.2 Transferring accrued benefits from or within the Scheme

(a) Accrued benefits relating to current employment

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

If you want to transfer the accrued benefits deriving from your own employee's mandatory contributions of your current employment to your personal account of the Scheme in accordance with the above, but you are not a personal account member of the Scheme, you will have to become a personal account member and the accrued benefits will be held in your personal account within the Scheme.

(b) Accrued benefits relating to former employment(s) and former self-employment(s)

If you are an employee member of the Scheme and have accrued benefits deriving from mandatory contributions of your former employment(s) or former self-employment(s) in your contribution account of the Scheme, you may, at any time, nominate to have all such accrued benefits transferred to your another contribution account or your personal account of the Scheme, or your contribution account of another registered scheme or your personal account of another registered scheme which is a master trust scheme or an industry scheme.

If you want to transfer the accrued benefits deriving from mandatory contributions of your former employment(s) or former self-employment(s) to your personal account of the Scheme in accordance with the above, but you are not a personal account member of the Scheme, you will have to become a personal account member and the accrued benefits will be held in your personal account within the Scheme.

(c) Accrued benefits in your personal account

If you have accrued benefits in a personal account of the Scheme, you may, at any time, nominate to have all such accrued benefits transferred to another personal account (if any) within the Scheme, a personal account within another registered scheme (provided that such registered scheme is a master trust scheme or an industry scheme) or another contribution account, whether within the Scheme or another registered scheme.

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

(d) Transfer in the context of cessation of employment

If an employee member leaves the service of the participating employer before retirement age, or a self-employed person ceases to be self-employed for reasons other than death, total incapacity, permanent departure from Hong Kong or small claim, he can elect to have his accrued benefits transferred to an account in another registered scheme (either the scheme of which his new employer is participating or the scheme nominated by the member himself) or the personal account in the Scheme.

However, if the cessation of employment is as a result of a change of business ownership or an intra-group transfer, and

(i) the employee member is re-employed by a new owner (in the case of change of business ownership) or an associated company of the previous participating employer (in the case of intra-group transfer) ("**new employer**");

(ii) the new participating employer has assumed the liability of the previous participating employer for severance or long service payment in respect of that employee member;

(iii) the new participating employer has agreed to recognize the employee's length of employment with the previous participating employer for the purposes of that severance or long service payment; and

(iv) no accrued benefits held in a registered scheme in respect of the employee member have been paid to the employee member or the previous participating employer for the purpose of severance or long service payment,

then the new participating employer may elect, in accordance with the General Regulation, to have the accrued benefits of the employee held under the previous employer's scheme transferred to the registered scheme in which the new employer is a participant. In that case, the employee member will not have the right to make any election in respect of his accrued benefits under the previous employer's scheme.

6.7.3 Fees relating to transfer

No fees, and no 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) will be charged, and no financial penalties will be imposed for transferring accrued benefits:

(a) to and from the Scheme;
(b) from an account within the Scheme to another account within the Scheme; or
(c) from a Constituent Fund to another Constituent Fund in the same account of the Scheme.

6.8 Payment of accrued benefits

6.8.1 Grounds on which accrued benefits are payable

- **Normal retirement:** At the age of 65, members will be entitled to their accrued benefits under the Scheme.

- **Early retirement:** Members may opt for early retirement (ceasing all employment/self-employment with no intention of becoming employed or self-employed again) at the age of 60 and obtain their accrued benefits under the Scheme.

- **Late retirement:** Employee members (with their participating employer's consent) and self-employed persons may retire later than the age of 65. Contributions may or may not continue by or on behalf of the employee members and self-employed persons. Contributions that continue to be made after the age of 65 will be regarded as voluntary contributions.

- **Permanent total incapacity:** In the event of ill health, which causes members to become disabled and leave their employment, the accrued benefits will be paid out in full. The payment will be made in one lump sum.

- **Terminal illness:** Members who have an illness that is likely to reduce the life expectancy to 12 months or less may elect to withdraw their accrued benefits under the Scheme. Employee members and self-employed persons should take note that, upon the claim of terminal illness, when and if they still remain under employment, they would only be entitled to claim accrued benefits attributable to mandatory contributions. The terms and conditions for the withdrawal of accrued benefits derived from voluntary contributions, as provided under the Master Trust Deed, and the relevant participation agreement, will remain unchanged. Please also refer to Section (F) *(Operation of the guarantee if the employee member or self-employed person makes a claim for terminal illness without termination of employment)* of Appendix I *(Operation of the guarantee in respect of the Principal Long Term Guaranteed Fund)* for the treatment of any investments in the Principal Long Term Guarantee Fund if the employee member or self-employed person makes a claim on the ground of terminal illness without termination of employment.

- **Death:** In the event of death, the accrued benefits will be paid out in full to the personal representative of the member, or if there are no personal representatives, to such person or to a person of such class as specified in the General Regulation. The payment will be made in a lump sum.

- **Permanent departure from Hong Kong:** Members who depart from Hong Kong to reside elsewhere with no intention of returning for employment or to resettle in Hong Kong as permanent residents may elect to withdraw their accrued benefits under the Scheme.

- **Small claim:** Subject to any conditions prescribed in the MPF Ordinance and the General Regulation, members may elect to withdraw their accrued benefits under the Scheme when the balance of the accrued benefits is less than HKD5,000 (or such other amount as prescribed from time to time by the MPF Ordinance or the General Regulation).

- **Accrued benefits attributable to voluntary contributions:** A self-employed person, personal account member may at any time withdraw all or part of the accrued benefits attributable to his voluntary contributions (as the case may be) by giving such notice as the Trustee may require. Subject to the terms and conditions prescribed by the Trustee in the Master Trust Deed, this MPF Scheme Brochure or any relevant forms, such individual may withdraw the accrued benefits attributable to his voluntary contributions (as the case may be) free of charge for the first four withdrawals in each financial year. Starting from the fifth withdrawal, a handling charge of up to HKD300 (which will be deducted from the withdrawal amount) may be imposed on each withdrawal. Currently, there is no limit on the number of withdrawals that such individual may make in each financial year. However, the Trustee reserves the right to impose a limit on the number of withdrawals in the future subject to the prior notice to members.

6.8.2 Withdrawal of accrued benefits by instalments

Members having reached the age of 65, or having reached the age of 60 and having declared that they have permanently ceased all employment/self-employment and have no intention of becoming employed/self-employed again, may elect, by giving the Trustee written notice in a form prescribed by the Trustee, to withdraw their accrued benefits in a lump sum or by instalments. The relevant claim form can be obtained from the Trustee's website at www.principal.com.hk. No fees or financial penalties (other than necessary transaction costs incurred, or reasonably likely to be incurred in selling or purchasing investments in order to give effect to the withdrawal which are payable to a party other than the Trustee) will be charged. Please note, however, that bank charges may apply to a member's bank account in respect of any direct payment of the accrued benefits into the bank account. Please also note that a partial withdrawal of accrued benefits may affect your guarantee entitlement under the Principal Long Term Guaranteed Fund.

6.8.3 Payment or transfer of accrued benefits

Unless the request has been rejected due to insufficient information and/or document(s) being provided by the member:

(a) Subject to (b), the interval between the receipt of the notice for payment or transfer of accrued benefits by the Trustee and the date of payment or transfer of accrued benefits is 30 days.

(b) In respect of an election by an employee member who ceases to be employed by a participating employer to transfer accrued benefits, 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.

(c) For accrued benefits to be paid in one lump sum, the accrued benefits shall be paid within 30 days after the date on which the claim is lodged or 30 days after the contribution day in respect of the last contribution period that ends before the claim is lodged, whichever is later.

(d) For accrued benefits to be paid by instalments with respect to a claim for withdrawal of accrued benefits on the ground of retirement or early retirement, unless otherwise agreed between the Trustee and the member, each instalment shall be paid no later than 30 days after the date on which the member instructs the Trustee to pay that instalment.

Any money (e.g. outstanding contributions and contribution surcharge) in respect of a member paid to the Scheme after the relevant member's accrued benefits have been transferred to another registered scheme under this section will be transferred to the transferee registered scheme as soon as practicable and will not be invested.

7. OTHER INFORMATION

7.1 Financial year end

The financial year end of the Scheme is 31 December.

7.2 Unitisation

The initial unit value for each unit of a Constituent Fund is HKD10.

7.3 Valuation

On each Valuation Day, the unit value of each class of units for each Constituent Fund will be equal to the net asset value of the Constituent Fund attributable to such class of units, divided by the number of units of that class outstanding, before taking into consideration any contributions, transfers, and/or withdrawals made on such date.

Liabilities attributable to each class of units of each Constituent Fund include but are not limited to management fees applicable to such class of units, custodial fees, investment transaction fees, transfer taxes and other taxes imposed by the country of origin and such other fees and charges as may be incurred in the course of managing or administering the Constituent Fund, which are attributable to such class of units. If there are no readily ascertainable prices for any of the assets of the Constituent Fund(s), the value of such assets will be determined by the Investment Manager using generally accepted accounting practices and applicable law.

In case of changes to the method of pricing and/or valuation of the Constituent Fund(s), the Trustee shall notify the Scheme participants three months (or a shorter period of notice as agreed by the SFC) prior to the change taking effect.

7.4 Deferral or suspension of dealings

Dealing of Constituent Funds will take place on each dealing day. However, having regard to the interests of the members, the Trustee may suspend or defer dealing of the units of any Constituent Fund in exceptional circumstances, which include:

(a) a closure, restriction or suspension of trading on any securities market on which substantial part of the investments of the Constituent Fund is traded, or a breakdown of the means of the Trustee to ascertain the prices of investments;

(b) in the opinion of the Trustee, the prices of investments of the Constituent Fund cannot be reasonably ascertained;

(c) in the opinion of the Trustee, realisation of investments of the Constituent Fund becomes not reasonably practicable, or becomes prejudicial to the interests of the members; and

(d) remittance, repatriation of funds involved in the realisation of or in the payment for investments of the Constituent Fund, or subscription or redemption of any unit of the Constituent Fund is delayed, or cannot, in the opinion of the Trustee, be carried out promptly at normal rates of exchange.

The suspension shall take effect until the Trustee declares the suspension has lifted, or if none of above situations exists, until but including the day on which none of above situations exists.

7.5 Reports and member accounts

Each member of the Scheme has a separately maintained and individually allocated account into which contributions made on his behalf are deposited in accordance with the provisions of the Scheme. Members will receive their annual benefit statements for each financial year.

The Master Trust Deed and the policy document of the underlying insurance policy-based APIF in which the Principal Long Term Guaranteed Fund invests can be inspected free of charge at the Trustee's premises during normal office hours.

7.6 Services

- FREE Principal MPF Contribution Calculation Software to ease MPF compliance;
- Principal TeleTouch© (+852 2827 1233) for checking account balances and switching investment choices as frequent as you wish free of charge. Members may, after entering their member number and PIN number, check account balances and/or switch investment choices in accordance with the instructions provided under the system. Switching will be processed within two working days. Valuation is based on the unit price on the day of switching;
- Enrollment meetings for members; and
- Online information and active account management from our website http://www.principal.com.hk.

7.7 Taxation

The Scheme, like all registered schemes, provides a tax advantage to participating employers, employees and self-employed persons.

The contributions made by a participating employer, up to 15% of an employee's annual total compensation, can be considered as a business expense, thus saving profits tax on such contribution.

The mandatory contributions made by an employee or self-employed person up to the relevant current legislative figures per year are income tax-deductible or profit tax-deductible. For example, the employee will be able to deduct his contributions for salary tax purposes subject to a maximum deduction per year as specified within the Inland Revenue Ordinance.

Accrued benefits from mandatory contributions are tax exempt. In addition, the accrued benefits of a deceased member in respect of both mandatory and voluntary contributions are not subject to estate duty.

On the other hand, like other retirement schemes, assets of the Scheme may be subject to certain taxes in the course of investment transactions. Stamp duty and exchange levy will be imposed upon investment transactions in Hong Kong and the levies will be paid out of the Scheme's assets. For investments outside Hong Kong, certain types of withholding tax may be levied by the country in which the transaction is effected and the levies will also be paid out of the Scheme's assets.

This section is prepared according to the Trustee's understanding of the tax implications for Hong Kong employers, employees and self-employed persons. We recommend employers, employees or self-employed persons seek independent professional advice regarding their own particular tax circumstances.

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 Scheme 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 Scheme with the fulfilment of its obligations under AEOI, and to act on the Scheme'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 Scheme.

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 Scheme 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 Scheme 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 Transferring from an existing registered scheme

It is easy to change the providers of your current MPF plan and the investment of the assets to the Scheme. Inform our appointed sales representative about your prior plan and we will work with you, your existing administrator and investment manager to arrange for a transfer. While the Trustee will at all times apply amounts transferred from another registered scheme to the Scheme as soon as practicable, where the amounts so transferred are attributable to a member who is a Former S500 Member, the Trustee will ensure that such amounts will be invested in accordance with the instructions of that Former S500 Member on the relevant Valuation Day normally within 5 business days of receipt of such amounts in cleared funds and in any event within 20 business days of such receipt.

In the unlikely event that after joining the Scheme, you wish to transfer your plan to another MPF master trust scheme, inform the trustee of your new registered scheme, who will inform the Trustee and arrange for a transfer. You may also approach our appointed sales representative and our administrators for assistance in the process.

7.10 Termination of your participation in the Scheme

Although we hope to have you as a customer for many years, we do recognise that things can change. You are able to terminate your participating plan under the Scheme by giving written notice to the Trustee in accordance with the General Regulation. Termination of the participating plan may be subject to a bid spread charge and details of which have already been contained in the table in section 5 *(Fees and Charges)*. Please also note that termination of your participating plan may affect the guaranteed entitlement under the Principal Long Term Guaranteed Fund. For details, please refer to section 3.4.1 *(Principal Long Term Guaranteed Fund)*.

In the case of termination of the plan by the participating employer, the transfer of accrued benefits will normally be made within 30 days after the termination notice given by the new trustee is or is deemed to be expired. However, when participating employer ceases contributions without notifying the Trustee, the Trustee may require such time as may be necessary to inform relevant government authorities and the accrued benefits will be paid or transferred within 30 days after the Trustee receives confirmation from all relevant government authorities.

7.11 Long service and severance payment

A participating employer may offset such payments out of the accrued benefits derived from the contributions made by the participating employer against its long service or severance pay liability under the Employment Ordinance (and, if the participating employer has assumed the long service or severance pay liability of the previous employer of the employee, the accrued benefits derived from the contributions made by the previous employer) in respect of the relevant employee. For example, if the amount of accrued benefits derived from the participating employer's contributions is HKD80,000 and the long service payment is HKD50,000, the participating employer can request the Trustee to pay HKD50,000 from the accrued benefits of participating employer's contributions to the leaving employee.

7.12 Authorisation by the Securities and Futures Commission

The Scheme has been authorised by the SFC. In giving this authorisation, the SFC has made no assessment of, nor does it take responsibility for, the financial soundness or the merits of Principal Trust Company (Asia) Limited nor has it verified the accuracy or truthfulness of statements made or, opinions expressed in the documentation. Also, authorisation does not imply official recommendation.

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.

7.13 Lien on benefits

Where the accrued benefits payable to an employee member is a Former S500 Member of a Former S500 Employer and all or part of such accrued benefits are due to voluntary contributions or transfer-in voluntary contributions, regardless of whether such contributions are paid by or otherwise attributable to the Former S500 Member and/or Former S500 Employer in respect of the Former S500 Member's current employment (the "VC Benefits"), the Former S500 Employer may produce receipt of evidence of the loss of the Former S500 Employer arising directly from any dishonest acts committed by the Former S500 Member and direct the Trustee to apply all or such part of the VC Benefits otherwise payable to the Former S500 Member to pay to the Former S500 Employer for its own benefit such amount representing such losses.

In any other cases, the accrued benefits of any employee member derived from employer's voluntary contributions kept under the Scheme shall stand charged with the payment of any proven debts or liabilities owed to an employer arising out of any criminal, negligent or fraudulent act or omission of the employee member. The Trustee may rely on a certificate from the employer. Also, where the member is dismissed by the employer (or who has resigned to avoid dismissal) because of fraud, dishonesty or gross misconduct against the employer, the Trustee may, at the request of the employer and to the extent allowed by law, rely on a certificate of the employer, forfeit any benefit which is derived from the employer's voluntary contributions to the Scheme and pay such forfeited benefits to the employer.

7.14 Use of unvested benefits or forfeited benefits

In respect of an employer who is a Former S500 Employer, the Former S500 Employer may direct the Trustee in writing to apply the balance held in its forfeitures account to reduce contributions due to the Scheme from the employer, pay any fees, costs or expenses relating to the Scheme and payable by the employer, refund all or part of such amount to the employer and/or otherwise in such other manner as the Former S500 Employer may direct in writing.

In any other cases, an employer may direct the Trustee to apply the balance in the forfeitures account to settle fees and expenses or otherwise reduce contributions.

8. GLOSSARY

"Administrator" or **"Trustee"**	Principal Trust Company (Asia) Limited.
"APIF(s)"	means a collective investment scheme approved by the MPFA pursuant to the MPF Ordinance for investment by registered schemes.
"Bond Connect"	means a mutual market access scheme that allows investors from Mainland China and overseas to trade in each other's bond markets through connection between the related Mainland and Hong Kong financial infrastructure institutions.
"China A-Shares"	are 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 the constituent funds covered under the Scheme.
"Custodian"	means Citibank, N.A.
"dealing day"	means each day on which banks are open for normal banking business in Hong Kong, excluding Saturdays.
"Deposit Protection Scheme"	means the scheme established under the Hong Kong Deposit Protection Scheme Ordinance.
"direct charge option"	means, in relation to a Constituent Fund, management fees payable by deducting from the net asset value of the Constituent Fund.
"DIS"	means the default investment strategy.
"effective currency exposure"	means effective currency exposure as defined in the General Regulation, Schedule 1, Part III.
"Feeder Fund"	means a fund investing solely in units of a single APIF/ITCIS.
"financial year"	means a 12-month period ending on 31 December.
"Former S500 Employer"	means a participating employer under the S500 Scheme.
"Former S500 Member"	means a member under the S500 Scheme.
"General Regulation"	means Mandatory Provident Fund Schemes (General) Regulation (Cap. 485A of the laws of Hong Kong).
"higher risk assets"	has the meaning given to it in the MPF Ordinance, including without limitation equities or similar investments.
"HKD"	means Hong Kong dollar, the official currency of the Hong Kong Special Administrative Region of the PRC.
"Hong Kong Stock Exchange"	means The Stock Exchange of Hong Kong Limited.
"Index Shares"	means shares of constituent companies of the Hang Seng Index.
"indirect charge option"	means, in relation to a Constituent Fund, management fees payable partly by deducting from the net asset value of the Constituent Fund and partly by deducting units from members' accounts.
"industry scheme"	has the same meaning as in the MPF Ordinance.
"Insurance Authority"	means the Hong Kong Insurance Authority.
"Insurer" or **"Sponsor"**	means Principal Insurance Company (Hong Kong) Limited.

"Investment Manager"	means the Investment Manager as identified in section 2 *(Directory of trustee and service providers)* in respect of any matter or Constituent Fund, and each reference to "Investment Manager" in section 3 *(Fund options, investment objectives and policies)* means the Investment Manager of the particular Constituent Fund to which the investment objective/policy relates and each reference to "Investment Manager" in other parts of this MPF Scheme Brochure means any such Investment Manager, unless otherwise specified.
"ITCIS(s)"	means an index-tracking collective investment scheme (as defined in Part 1 of Schedule 1 to the General Regulation) approved by the MPFA for investment by provident fund schemes registered under the MPF Ordinance.
"lower risk assets"	means those assets not being higher risk assets, including without limitation global bonds and money market instruments.
"Master Trust Deed"	means the master trust deed which established the Scheme and was registered with the MPFA on 31 January 2000, as amended from time to time.
"MPF Ordinance"	means the Mandatory Provident Fund Schemes Ordinance (Cap. 485 of the laws of Hong Kong).
"MPFA"	means the Mandatory Provident Fund Schemes Authority.
"Portfolio Management Fund"	means a fund investing in units of two or more APIFs/ITCISs.
"PRC"	means the People's Republic of China.
"Principal"	means Principal Insurance Company (Hong Kong) Limited.
"Promoter"	means Principal Investment & Retirement Services Limited.
"Reference Portfolio"	means, in respect of each of the Principal Core Accumulation Fund and the Principal Age 65 Plus Fund, 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).
"registered scheme(s)"	has the same meaning in section 2 of the MPF Ordinance.
"Relevant Circumstances"	means: (a) the Trustee having reason to know that information and documents provided to the Trustee are incorrect or incomplete; (b) failure of applicants to provide information and documents as required by the Trustee to ensure compliance with applicable laws and regulations relating to anti-money laundering/tax reporting; and/or (c) other circumstances which the Trustee may consider appropriate.
"relevant income"	has the same meaning in section 2 of the MPF Ordinance, as amended from time to time.
"Restructuring Date"	means 27 March 2014.

"RMB"	means Renminbi, the official currency of the PRC.
"S500 Scheme"	means the Principal MPF Scheme Series 500.
"Scheme"	means the Principal MPF Scheme Series 600.
"Securities and Futures Ordinance"	means the Securities and Futures Ordinance (Cap. 571 of the laws of Hong Kong).
"SFC"	means the Securities and Futures Commission of Hong Kong.

"Specific Investment Instruction"

means:

(a) subject to (b) below, an instruction for investment allocations, which meets the following requirements:

- the minimum investment allocation in any Constituent Fund selected must be an integer (e.g. 6% and not 6.5%); and
- the total must be 100%; or

(b) in respect of any switching instruction) the percentage amount for switching is an integer percentage and the switch-in total must be 100%;

(c) any confirmation by a member (whether made verbally or through hard copy submission, online submission, email, IVRS (interactive voice response system) or mobile apps) 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 mandatory contributions (regardless of whether they are from participating employers or members) may be different from the Specific Investment Instruction for voluntary contributions (regardless of whether they are from participating employers or members).

Any investment mandate, change of investment mandate or switching instruction must meet the requirements for a Specific Investment Instruction and each reference to "investment mandate", "change of investment mandate" or "switching instruction" in this MPF Scheme Brochure is deemed to mean the "investment mandate", "change of investment mandate" or "switching instruction" that meets the requirements for a Specific Investment Instruction, unless otherwise specified.

"Stock Connect"	means the cross-boundary investment channel that connects the PRC markets and the Hong Kong Stock Exchange.
"USD"	means US dollar, the official currency of the United States.
"Valuation Day"	means the day on which the Investment Manager values the Constituent Fund(s) and, unless the Trustee determines otherwise, valuation will occur on each day on which banks in Hong Kong are open for normal banking business, excluding Saturdays, or such other day or days as the Trustee may determine from time to time, either generally or in relation to a particular Constituent Fund.

APPENDIX I - OPERATION OF THE GUARANTEE IN RESPECT OF THE PRINCIPAL LONG TERM GUARANTEED FUND

(A) When the guarantee of the Principal Long Term Guaranteed Fund will apply

Each of Class D and Class I units of the Principal Long Term Guaranteed Fund is sub-divided into three guarantee sub-classes:

(i) 4.0% guarantee sub-class

(ii) 5.0% guarantee sub-class

(iii) 1.0% guarantee sub-class

The 1.0% guarantee sub-class of units is applicable to investment with effect from 1 October 2004. Interest will be credited to the qualifying balance of the relevant member attributable to such sub-class of units at the rate of 1% per annum (i.e. the prevailing applicable rate). If the prevailing applicable rate is to be changed, the Trustee will notify the participating employers and members concerned at least three months prior to the effective date of the change.

For the 4.0% (or 5.0%) guarantee sub-class of units, in respect of contributions made on or before 30 September 2004, interest would be credited to the qualifying balance of the relevant member at the rate of 4% per annum (or 5% per annum, as the case may be), and in respect of contributions made after 30 September 2004, interest will be credited to the qualifying balance at the rate of 1% per annum (i.e. the prevailing applicable rate). If the member effects a redemption, switching out or withdrawal of the units of the Principal Long Term Guaranteed Fund after 30 September 2004 other than the occurrence of a qualifying event, the remaining qualifying balance (regardless of whether it includes contributions made on or before 30 September 2004) will only be credited with interest at the prevailing applicable rate. Members should therefore note that investing contributions in the 4.0% or 5.0% guarantee sub-class does not mean that the members will be entitled to a 4% or 5% guaranteed rate of return in respect of all of their contributions.

Please note the following arrangements:

- For participating employers who had chosen the indirect charge option (i.e. Class I units) prior to 1 October 2004, the 4.0% guarantee sub-class of units would be a continuation of the original 4.0% guarantee sub-class of units which had been applicable to their employee members who invested in the Principal Long Term Guaranteed Fund prior to 1 October 2004 and would continue to apply to such employees after 1 October 2004 only if they held units of such guarantee sub-class on 30 September 2004.

- For participating employers who had chosen the direct charge option (i.e. Class D units) prior to 1 October 2004, the 5.0% guarantee sub-class of units would be a continuation of the original 5.0% guarantee sub-class of units, which had been applicable to their employee members who invested in the Principal Long Term Guaranteed Fund prior to 1 October 2004 and would continue to apply to such employees after 1 October 2004 only if they held units of such guarantee sub-class on 30 September 2004.

- However, if the employee members did not hold units of the 4.0% or 5.0% guarantee sub-class of units on 30 September 2004, they could only invest in the 1.0% guarantee sub-class of units after 30 September 2004.

- A charge option (i.e. Class D or Class I units) applicable to a participating employer will apply to all of its employees including those who may only invest in the 1.0% guarantee sub-class of units.

- For participating employers and self-employed persons who join the Scheme on or after 1 October 2004, the direct charge option (i.e. Class D units) will not be available and only the indirect charge option (i.e. Class I units) will apply.

Under the guarantee mechanism, a qualifying balance will be maintained in respect of all the scheme accounts of a member. When a contribution by or in respect of a member is made to the Principal Long Term Guaranteed Fund in respect of any scheme account, an amount equal to such contribution will be credited to the qualifying balance of the member. Interest will then be credited to the qualifying balance as follows.

The qualifying balance is only an accounting record and any amount credited (or debited) to the qualifying balance means that such amount is recorded as a credit (or debit) to the qualifying balance.

The guarantee will be offered to the relevant member when all his accrued benefits are withdrawn upon the occurrence of a qualifying event.

For the avoidance of doubt:

(i) no interest will be credited if the remaining qualifying balance is not greater than zero; and

(ii) any Relevant Transfer of Benefits other than an intra-group transfer will be regarded as redemption, switching out or withdrawal of the units of the Principal Long Term Guaranteed Fund after 30 September 2004 other than the occurrence of a qualifying event and the remaining qualifying balance (regardless of whether it includes contributions made on or before 30 September 2004) will only be credited with 1% interest at the prevailing applicable rate.

(ii) above shall not however affect the application of the guarantee where the relevant member retires upon or after the normal retirement age or dies or ceases employment after completing the qualifying period of 36 complete months or more, in each case without him (or his personal representative, as the case may be) filing a Valid Claim.

For the avoidance of doubt, in case a member invests in the Principal Long Term Guaranteed Fund in his capacity of an employee of more than one employment, the guarantee offered under the underlying insurance policy-based APIF will be applicable to each such employment (and will not be affected by the other employment), and a qualifying balance and qualifying period will be maintained by the Trustee in respect of each such employment.

(B) Guarantee sub-classes of the Principal Long Term Guaranteed Fund

Contributions made by or in respect of members who on 30 September 2004 held units of the 4.0% guarantee sub-class or 5.0% guarantee sub-class will continue to remain in their respective classes after 30 September 2004. Contributions made by or in respect of members who did not hold units of the 4.0% guarantee sub-class or 5.0% guarantee sub-class on 30 September 2004 will be invested in the 1.0% guarantee sub-class of units.

(C) Guarantee mechanism of the Principal Long Term Guaranteed Fund

Where the guarantee applies in respect of a member, if the nominal account balance is smaller than the qualifying balance maintained for that member, the qualifying balance (less the applicable bid spread, if any) will be paid and the shortfall will be made up by Principal, as the insurer of the underlying insurance policy-based APIF. On the other hand, if the nominal account balance is equal to or greater than the qualifying balance, the member will be entitled to the nominal account balance, instead of the qualifying balance. For illustrations, please refer to Scenarios 1 and 2 - Examples 1 to 5 set out in Appendix II *(Illustrations of the Guarantee Features of the Principal Long Term Guaranteed Fund)*.

If a redemption, switching out or withdrawal of the units in the Principal Long Term Guaranteed Fund is effected other than the occurrence of a qualifying event (except in the case of a Valid Claim under (ii) or (iii) of its definition), the guarantee will be affected and:

(i) the qualifying balance of the member will be adjusted downward to reflect the effect of the redemption, switching or withdrawal of such units - in such case, the qualifying balance may become negative if the amount redeemed, switched out or withdrawn is greater than the qualifying balance. For illustrations, please refer to Scenarios 4 and 5 - Examples 7 to 9 set out in Appendix II *(Illustrations of the Guarantee Features of the Principal Long Term Guaranteed Fund)*; and

(ii) the qualifying period of the member will be re-set to zero and recommence from the date of such adjustment unless at such time no balance remained in the Principal Long Term Guaranteed Fund - then the qualifying period will only recommence from the date on which new contribution is made to the Principal Long Term Guaranteed Fund. For illustrations, please refer to Scenarios 6 and 7 - Examples 10 to 12 set out in Appendix II *(Illustrations of the Guarantee Features of the Principal Long Term Guaranteed Fund)*.

In crediting interest to the qualifying balance(s) of the members, the following will apply:

(i) interest shall be accrued to the relevant qualifying balance in respect of a contribution made by or in respect of a member and invested in the Principal Long Term Guaranteed Fund from (and including) the dealing day on which it is invested in the Principal Long Term Guaranteed Fund up to (and excluding) the dealing day on which the relevant units attributable to such contribution are redeemed by the member (or his personal representative) upon the occurrence of a qualifying event; and

(ii) if there is a redemption, switching out or withdrawal by the member from the Principal Long Term Guaranteed Fund other than the occurrence of a qualifying event, interest shall be accrued to the adjusted qualifying balance (provided that it is greater than zero) from (and including) the dealing day on which such adjustment is made up to (and excluding) the dealing day on which the relevant units are redeemed by the member (or his personal representative) upon the occurrence of a qualifying event.

Due to the nature of the guarantee, the Principal Long Term Guaranteed Fund is expected to be a long term investment for the members. Members should note that any redemption, switching out or withdrawal of part or all of their units in the Principal Long Term Guaranteed Fund may have an adverse effect on their qualifying balance(s) and guarantee entitlement under the Principal Long Term Guaranteed Fund. **Hence, members are strongly advised not to redeem, switch out or withdraw part or all of their unitholdings in the Principal Long Term Guaranteed Fund, or elect to have any Relevant Transfer of Benefits, other than where a qualifying event occurs.**

(D) Pro-rata calculation of qualifying balance

Upon the occurrence of a qualifying event in respect of a member, if the qualifying balance (regardless whether it is mandatory portion or voluntary portion) is partly payable to the member concerned and partly payable to certain other person(s), the amount of such part payments will be calculated on a pro-rata basis according to the respective entitlements of the member and that other person(s). An example of such situation is where a vesting scale is applicable to accrued benefits attributable to the participating employer's voluntary contributions to be paid to the member, in which case, the member will only be entitled to a pro-rated value of the qualifying balance which is attributable to the vested accrued benefits of the member, and the remaining qualifying balance representing the unvested portion will be paid to the participating employer. For illustration, please refer to Scenario 8 - Example 13 set out in Appendix II *(Illustrations of the Guarantee Features of the Principal Long Term Guaranteed Fund)*.

(E) Operation of the guarantee if the participating employer makes a claim for severance or long service payment

If a participating employer submits a claim under the MPF Ordinance for a payment from the leaving employee member's accrued benefits for the purpose of offsetting the severance payment or long service payment made to the leaving employee member, **the Trustee will only process the claim after it has received the relevant election form or claim form from the leaving employee member in respect of his accrued benefits**. The purpose of doing so is to ensure that any guarantee entitlement of the leaving employee member will not be adversely affected by reason of the set-off claim made by the participating employer. However, if the leaving employee member does not submit the election form or claim form within three months after the Trustee has been notified of the termination of employment and the accrued benefits are transferred to a personal account, the set-off claim of the participating employer will be processed at the end of such three-month period when the accrued benefits are transferred to the personal account. **Members are advised that their claims of accrued benefits or transfer of such accrued benefits should be submitted as soon as practicable if a severance payment or long service payment has been made to them by their participating employers.**

If a qualifying event occurs, the qualifying balance of the leaving employee member will be calculated in order to determine the amount of accrued benefits payable to the leaving employee member. If the qualifying balance is greater than the nominal account balance, the qualifying balance will be payable. Out of such qualifying balance, both the portion attributable to the participating employer's contribution (the "**employer's portion**") and the portion attributable to the employee's contribution (the "**employee's portion**") will be ascertained. The participating employer's claim of severance payment or long service payment will be paid from the employer's portion. Any amount remaining in the employer's portion, together with the employee's portion, will be paid to the leaving employee. For illustrations, please refer to Scenario 9 - Example 14 set out in Appendix II *(Illustrations of the Guarantee Features of the Principal Long Term Guaranteed Fund).*

(F) Operation of the guarantee if the employee member or self-employed person makes a claim for terminal illness without termination of employment

Employee members and self-employed persons should note that, if their accrued benefits involved accrued benefits from both mandatory and voluntary contributions, upon a claim of terminal illness, when and if they are still remained under employment or self-employment, they will be entitled to withdraw the mandatory portion. The qualifying balance attributable to the mandatory portion will be calculated on a pro-rata basis and their qualifying balance immediately after the claim will be subject to the following:

(i) If the qualifying balance is equal to or greater than the nominal account balance, the qualifying balance attributable to the mandatory portion will be pro-rated and paid to the members, and the remaining voluntary portion with the entitlement of the 4% per annum (or 5% per annum as the case may be) guarantee rate and, where applicable, the prevailing applicable rate will remain in members' account and the qualifying period will not be changed.

(ii) If the qualifying balance is smaller than the nominal account balance, the qualifying balance after having deducted the entitlement of mandatory portion, i.e. the remaining qualifying balance attributable to the voluntary portion, will be subject to the prevailing applicable rate prospectively while qualifying period will not be changed.

(iii) If the nominal account balance attributable to the mandatory portion withdrawn is larger than the qualifying balance, the remaining qualifying balance attributable to the voluntary portion will be a negative balance and will be subject to the prevailing applicable rate prospectively while qualifying period will not be changed.

For illustrations, please refer to examples 1 to 4 set out in section C *(Illustrations of Operation of the Guarantee if the Employee Member or Self-Employed Person makes a claim for terminal illness without termination of employment)* of Appendix II *(Illustrations of the Guarantee Features of the Principal Long Term Guaranteed Fund).*

(G) Guarantee entitlement in respect of partial withdrawal of accrued benefits upon retirement or early retirement

Members should note that if they wish to withdraw part, but not all of their accrued benefits under the Principal Long Term Guaranteed Fund (except in the case of Valid Claim under (ii) or (iii) of its definition), they will lose their entitlement to the guarantee of capital and guaranteed rate of return in respect of such amount withdrawn.

If an employee member or self-employed person participating in the Principal Long Term Guaranteed Fund meets qualifying event (i.e. qualifying event (i)) and wishes to withdraw part, but not all of his accrued benefits under the Principal Long Term Guaranteed Fund, he should file a Valid Claim and make an election pursuant to section 146 of the General Regulation, to have his actual amount of accrued benefits (with the application of the guarantee) transferred to his personal account under the Scheme pursuant to the applicable regulations and the Scheme rules to enjoy the full accrued benefit of the guarantee of capital and guaranteed rate of return. After the transfer, any partial withdrawal of the balances in the personal account will be regarded as a redemption or switching out from the Principal Long Term Guaranteed Fund other than upon the occurrence of a qualifying event and will lose the guarantee entitlement in respect of such amount withdrawn. If, however, the member subsequently files a Valid Claim upon occurrence of a qualifying event, the member will still be entitled to the guarantee at the prevailing applicable rate in respect of such remaining accrued benefits. But before any withdrawal of the remaining accrued benefits in the personal account is made, guarantee charge of up to 1% shall continue to apply to the underlying insurance policy-based APIF to which the remaining accrued benefits of the member relate.

A personal account member who has met qualifying event (i) and wishes to withdraw part, but not all of his accrued benefits under the Principal Long Term Guaranteed Fund, will lose the guarantee entitlement in respect of such partial withdrawal of accrued benefits in his personal account as such partial withdrawal fails to meet the requirement of a Valid Claim which requires a claim for all accrued benefits in his personal account. If, however, the member subsequently files a Valid Claim upon occurrence of a qualifying event, the member will still be entitled to the guarantee in respect of such remaining accrued benefits. But before any withdrawal of the remaining accrued benefits in the personal account is made, guarantee charge of up to 1% shall continue to apply to the underlying insurance policy-based APIF to which the remaining accrued benefits of the member relate. For illustrations, please refer to examples 1 to 3 set out in section D *(Illustrations of Operation of the Guarantee if the Employee Member or Self-Employed Person makes a claim for withdrawal of accrued benefits by instalment)* of Appendix II *(Illustrations of the Guarantee Features of the Principal Long Term Guaranteed Fund)*.

(H) Guarantee entitlement in respect of partial withdrawal of accrued benefits on the ground of attaining normal retirement age while remaining in employment or self-employment

Before withdrawal of any remaining accrued benefits under the Principal Long Term Guaranteed Fund, a guarantee charge of up to 1% shall continue to apply to the underlying insurance policy-based APIF to which any such remaining accrued benefits of the employee member or self-employed person relate. For illustrations, please refer to examples 1 to 4 set out in section E *(Illustrations of Operation of the Guarantee if the Employee Member makes a claim for withdrawal of accrued benefits by instalments while remaining in employment)* of Appendix II *(Illustrations of the Guarantee Features of the Principal Long Term Guaranteed Fund)*.

Employee members

If an employee member attains normal retirement age (qualifying event (i)) but remains in employment, he may withdraw all or part of the mandatory portion under the Principal Long Term Guaranteed Fund by filing a Valid Claim.

If the total amount of the qualifying balance comprising both mandatory portion and voluntary portion is equal to or greater than the total amount of the nominal account balance in the employee member's contribution account, the employee member will be entitled to the qualifying balance. Regardless of whether the employee member is claiming all or part of the mandatory portion under the Principal Long Term Guaranteed Fund, the employee member's entitlement to the mandatory portion of the qualifying balance will be calculated at the time when the relevant units in the Principal Long Term Guaranteed Fund are redeemed in respect of his Valid Claim according to the following formula:

> total qualifying balance x (such part of the nominal account balance that is attributable to the mandatory portion/total nominal account balance)

Such calculation will be done only once and the guarantee will apply to the entire mandatory portion even if the employee member withdraws only part of the mandatory portion. The employee member may withdraw the mandatory portion of the qualifying balance in one lump sum or in instalments. The remaining qualifying balance attributable to voluntary portion with the guarantee rate of 4% per annum (or 5% per annum, as the case may be), and, where applicable, the prevailing applicable rate, will remain in the employee member's contribution account and the qualifying period will not be changed. The voluntary portion will be payable in accordance with the applicable regulations and the relevant Scheme rules.

If the total amount of the qualifying balance is smaller than the total amount of the nominal account balance in the employee member's contribution account, the employee member will be entitled to the nominal account balance determined once at the time when the relevant units in the Principal Long Term Guaranteed Fund are redeemed in respect of his Valid Claim. The employee member may withdraw the mandatory portion of the nominal account balance in one lump sum or in instalments. As for the employee member's voluntary portion, the employee member will be entitled to the higher of: (i) such part of the nominal account balance attributable to the voluntary portion; and (ii) the remaining qualifying balance (i.e. total qualifying balance less the nominal account balance attributable to the mandatory portion), such remaining qualifying balance will be subject to the prevailing applicable rate and the qualifying period will not be changed. The voluntary portion will be payable in accordance with the applicable regulations and the relevant Scheme rules.

If the total amount of the qualifying balance is smaller than the nominal account balance attributable to the mandatory portion, the remaining qualifying balance attributable to the voluntary portion will become a negative balance and will be subject to the prevailing applicable rate prospectively while the qualifying period will not be changed.

For the avoidance of doubt, other than the guarantee mechanism described above in respect of the mandatory portion, no further guarantee will apply to the mandatory portion, unless the employee member subsequently makes a Valid Claim upon occurrence of a qualifying event.

Self-employed persons

A self-employed person who attains normal retirement age (qualifying event (i)) while remaining in self-employment may withdraw all or part of his accrued benefits under the Principal Long Term Guaranteed Fund by filing a Valid Claim.

The guarantee of capital and guaranteed rate of return shall apply to the whole of the mandatory portion and voluntary portion of the self-employed person, regardless of whether the relevant withdrawal is by way of instalment or in one lump sum. Such guarantee of capital and guaranteed rate of return will apply once at the time when the relevant units in the Principal Long Term Guaranteed Fund are redeemed in respect of his Valid Claim. If the self-employed person opts for partial withdrawal of accrued benefits, any partial withdrawal(s) from the Principal Long Term Guaranteed Fund which do not qualify as a Valid Claim will be regarded as a redemption or switching out from the Principal Long Term Guaranteed Fund other than upon occurrence of a qualifying event and no guarantee shall apply to any such partial withdrawal(s). If the self-employed person subsequently files a Valid Claim in respect of all accrued benefits under all Scheme accounts upon occurrence of a qualifying event, the self-employed person will be entitled to the guarantee at the prevailing applicable rate in respect of such remaining accrued benefits.

(I) Reserve

In order to assure proper functioning of the underlying insurance policy-based APIF, a reserve for contingency has been established by Principal, as the guarantor of the underlying insurance policy-based APIF. A guarantee charge of up to 1% will be deducted from the asset value of the underlying insurance policy-based APIF. There will be a dilution of performance due to the guarantee structure in place. No part of the reserve will form part of the Scheme assets or the assets of the underlying insurance policy-based APIF. If the reserve is insufficient to meet the guarantees of the underlying insurance policy-based APIF, the guarantees will be met with assets of Principal, as the guarantor. Upon termination of the underlying insurance policy-based APIF, Principal, as the guarantor shall distribute to the Trustee and the then existing policyholders by the insurance policy-based APIF an amount equal to (i) the aggregate guarantee charges deducted from the asset value of each guarantee class of the underlying insurance policy-based APIF after 30 September 2004, less (ii) the aggregate amount of shortfalls paid or payable by Principal, as guarantor out of the reserve after 30 September 2004. Such distributable amount may be allocated to the Trustee and the then existing policyholders on a pro-rata basis in accordance with their respective amounts of investments in the underlying insurance policy-based APIF. However, if Principal, as the guarantor, in its reasonable opinion, considers that such allocation is not fair and equitable, Principal, as the guarantor, may allocate the distributable amount in such other manner which Principal, as the guarantor, may consider fair and equitable, taking into account the prevailing circumstances at the time of distribution. Upon receipt of any distribution from Principal, as the guarantor, the Trustee will in turn distribute it to the then existing members of the Principal Long Term Guaranteed Fund in accordance with their respective amounts of investments in the Principal Long Term Guaranteed Fund. However, if the Trustee considers that such allocation is not fair and equitable, the Trustee may distribute the amount in such other manner, taking into account the prevailing circumstances at the time of distribution.

(J) Termination of the underlying APIF by the Guarantor

Under the terms of the underlying insurance policy-based APIF, Principal, as the guarantor has the right to terminate the insurance policy-based APIF by giving the Trustee three months' written notice. If Principal, as the guarantor terminates the insurance policy-based APIF by giving such a notice, Principal, as the guarantor will, in respect of each member, pay the Trustee an amount as if the members were withdrawing all the units in the Principal Long Term Guaranteed Fund upon occurrence of a qualifying event (i.e. with the application of the guarantee). The Trustee will in turn adjust the unitholdings of the members to reflect the effect of the guarantee. Thereafter, the guarantee will cease to apply under the Principal Long Term Guaranteed Fund. The Trustee will then make such other investments as it may consider appropriate, taking into account the prevailing market conditions. The Trustee will also notify the members of any such investment decisions accordingly.

APPENDIX II - ILLUSTRATIONS OF THE GUARANTEE FEATURES OF THE PRINCIPAL LONG TERM GUARANTEED FUND

Introductory Notes:

A. Illustration of the Guarantee Mechanism

Warnings:

1. The illustrations in this section are subject to the detailed descriptions in the preceding part of this Appendix. Members are encouraged to refer to the relevant sections of those descriptions when reviewing the illustrations.

2. The following figures are for illustration purpose only, and should not be viewed as an indication of future returns. Actual investment earnings may go down as well as up.

B. Assumptions relating to Illustrations

1. The following illustrative examples (other than Scenario 8 - Example 13) assume that HKD5,000 is contributed at the beginning of each year in the Principal Long Term Guaranteed Fund. For each member participating in this Constituent Fund, we will maintain a nominal account balance ("**NB**") and a qualifying account balance ("**QB**"). The QB is merely an accounting record and any amount credited (or debited) to the QB means that such an amount is recorded as a credit (or debit) to the QB. For the purpose of the Constituent Fund, QB indicates the guaranteed amount offered to the member under the Constituent Fund upon the occurrence of a qualifying event.

2. The NB is the net asset value of the relevant units of the Constituent Fund (before deduction of any bid spread), and may go down as well as up. In other words, the NB will reflect the actual performance of the units held by the member. For illustration purposes, it is assumed that no bid spread will be charged.

3. For the 4.0% or 5.0% guaranteed sub-class of units, the QB is determined based on an annually compounded rate of return of (i) 4% or 5%, where applicable, for contributions made on or before 30 September 2004 and (ii) 1% for contributions made after 30 September 2004. For the 1.0% guarantee sub-class of units, the QB is determined based on an annually compounded rate of return of 1% for all contributions made. For the purpose of illustrations, it is assumed that units invested belong to the 5.0% guaranteed sub-class.

4. In the illustrations, QB1 is the QB for contributions made on or before 30 September 2004, and QB2 is the QB for contributions made after 30 September 2004. For the sake of simplicity, it is assumed that there are only participating employer's and employee's mandatory contributions (except in Scenario 8 - Example 13 where the application of the guarantee on employee's and participating employer's voluntary contributions is illustrated).

5. Both NB and QB are net of all fees and charges.

6. If a qualifying event takes place, the greater of the NB and the QB will be paid. In determining the amount of QB, interest will only be accrued to the QB up to (but excluding) the dealing day on which the actual redemption takes place.

7. In the illustration, "qualifying period" means the period for which the member has invested in the Constituent Fund and during which no withdrawal has ever been made.

8. If a member wishes to effect a redemption, switching out or withdrawal of the units of the Constituent Fund other than the occurrence of a qualifying event, such transaction will be effected as if all units of the Constituent Fund will be redeemed and the units which are not requested to be redeemed, switched out or withdrawn, if any, will be re-invested in the Constituent Fund. In such circumstances, the following will apply:

   (a) the NB in respect of the withdrawn units (less any applicable bid spread) will be paid;

   (b) the qualifying period will be reset to zero and re-commence from the date on which the QB is adjusted (as stated in (c) below) provided that if at such time there is no longer any contribution remained in the Constituent Fund, the qualifying period will only re-commence on the date on which new contribution is made to the Constituent Fund;

   (c) the QB of the re-invested units will be adjusted based on the amount of NB and QB at the time immediately prior to such withdrawal:

      (i) if QB is less than or equal to NB, the QB will be reduced by the amount by which the NB has decreased as a result of the redemption, switching out or withdrawal (and may become negative if the amount redeemed, switched out or withdrawn is greater than the QB);

      (ii) if QB is greater than NB, the QB will be reset to an amount equal to the NB (after the redemption, switching out or withdrawal); and

   (d) the adjusted QB (together with any future contributions credited thereto) will be credited with interests at an annually compounded rate of return of 1% after the withdrawal (provided the balance is positive).

9. For the avoidance of doubt, paragraphs 8 (a) to (d) will also be applicable in case where units of the Constituent Fund are fully withdrawn other than the occurrence of a qualifying event.

10. Members should note that the QB of a member will be determined independent of any of his former employment (other than in the case of “intra-group transfer”).

Scenario 1

Assumptions:

1. A member first invested in the Constituent Fund on 1 January 2002 and therefore the guaranteed rate of return of 5% applies to his contributions made on or before 30 September 2004 and 1% applies to any of his contributions made after 30 September 2004.

2. No redemption, switching or withdrawal was made.

Illustrations:

End of Year	Actual Annualized Return of the Constituent Fund	End of Year NB (reflects actual investments)	Qualifying Period (reflects period of investment)	End of Year QB1 (5%) (contributions made on or before 30 September 2004 - subject to 5% rate of return)	End of Year QB2 (1%) (contributions made after 30 September 2004 – subject to 1% rate of return)	End of Year Total QB (QB1 + QB2)
2002	1.00%	HKD5,050	12 months	HKD5,250	HKD–	HKD5,250
2003	2.00%	HKD10,251	24 months	HKD10,762.50	HKD–	HKD10,762.50
2004	9.00%	HKD16,623.59	36 months	HKD16,550.63	HKD–	HKD16,550.63
2005	7.00%	HKD23,137.24	48 months	HKD17,378.16	HKD5,050	HKD22,428.16

Examples 1 to 3 below illustrate the different amounts which the member may receive when his accrued benefits are withdrawn in different cases of termination of employment.

Example 1 illustrates how the guarantee will be applied when the member retires at the normal retirement age.

Example 2 illustrates the amounts which the member will receive upon termination of employment other than the occurrence of a qualifying event.

Example 3 illustrates the amounts which the member will receive upon termination of employment, where the qualifying period is more than 36 months.

Illustrative Example 1: As of 31 December 2003, member retired after attaining the normal retirement age of 65. All relevant contributions were made before 30 September 2004. Member then made a claim for his accrued benefits. Actual redemption took place on the first day of the following year and the NB for that day was the same as the NB for the previous day.

Since retirement at normal retirement age is a qualifying event, the greater of the QB (for End of Year 2003) and the NB (for End of Year 2003) will be paid.

QB = HKD10,762.50 (HKD5,000 x 1.05 x 1.05 + HKD5,000 x1.05)

NB = HKD10,251 (HKD5,000 x 1.01 x 1.02 + HKD5,000 x 1.02)

Therefore, HKD10,762.50 will be paid.

Illustrative Example 2: As of 31 December 2003, member's employment was terminated. The qualifying period was 24 months. All contributions were made before 30 September 2004. Member then made a claim for his accrued benefits. Actual redemption took place on the first day of the following year and the NB for that day was the same as the NB for the previous day.

Since the qualifying period was less than 36 months, there is no qualifying event. The NB (for End of Year 2003) at the sum of HKD10,251 will be transferred to personal account / new trustee.

Illustrative Example 3: As of 31 December 2005, member's employment was terminated. The qualifying period was 48 months. Some contributions were made before 30 September 2004 and some were made after 30 September 2004. Member then made a claim for his accrued benefits. Actual redemption took place on the first day of the following year and the NB for that day was the same as the NB for the previous day.

Since the qualifying period was more than 36 months, a qualifying event has occurred. The greater of (i) the total QB (i.e. QB1 + QB2, both for End of Year 2005) and (ii) the NB (for End of Year 2005) will be paid.

QB1 + QB2 = HKD22,428.16 (HKD5,000 x 1.05 x 1.05 x 1.05 x 1.05 + HKD5,000 x 1.05 x 1.05 x 1.05 + HKD5,000 x 1.05 x 1.05 + HKD5,000 x 1.01)

NB = HKD23,137.24 (HKD5,000 x 1.01 x 1.02 x 1.09 x 1.07 + HKD5,000 x 1.02 x 1.09 x 1.07 + HKD5,000 x 1.09 x 1.07 + HKD5,000 x 1.07)

Therefore, HKD23,137.24 will be transferred to personal account / new trustee.

Scenario 2:

Assumptions:

1. A member first invested in the Constituent Fund on 1 January 2005 and therefore the guaranteed rate of return of 1% applies to all his contributions.

2. No redemption, switching or withdrawal was made.

Illustrations:

End of Year	Actual Annualized Return of the Constituent Fund	End of Year NB (reflects actual investments)	Qualifying Period (reflects period of investment)	End of Year QB1 (5%) (contributions made on or before 30 September 2004 - subject to 5% rate of return)	End of Year QB2 (1%) (contributions made after 30 September 2004 – subject to 1% rate of return)	End of Year Total QB (QB1 + QB2)
2005	0.00%	HKD5,000	12 months	HKD–	HKD5,050	HKD5,050
2006	-3.00%	HKD9,700	24 months	HKD–	HKD10,150.50	HKD10,150.50

Examples 4 to 5 below illustrate the different amounts which the member may receive when his accrued benefits are withdrawn in different cases of termination of employment.

Example 4 illustrates how the guarantee will be applied when the member retires at the normal retirement age.

Example 5 illustrates the amounts which the member will receive upon termination of employment other than the occurrence of a qualifying event.

Illustrative Example 4: As of 31 December 2005, member retired after attaining the normal retirement age of 65. All relevant contributions were made after 30 September 2004. Member then made a claim for his accrued benefits. Actual redemption took place on the first day of the following year and the NB for that day was the same as the NB for the previous day.

Since retirement at normal retirement age is a qualifying event, the greater of (i) the total QB (i.e. QB1 + QB2, both for End of Year 2005) and (ii) the NB (for End of Year 2005) will be paid.

QB1 + QB2 = HKD5,050 (HKD5,000 x 1.01)

NB = HKD5,000

Therefore, HKD5,050 will be paid.

Illustrative Example 5: As of 31 December 2006, member's employment was terminated. The qualifying period was 24 months. All contributions were made after 30 September 2004. Member then made a claim for his accrued benefits. Actual redemption took place on the first day of the following year and the NB for that day was the same as the NB for the previous day.

Since the qualifying period was less than 36 months, there is no qualifying event. The NB (for End of Year 2006) at the sum of HKD9,700 will be transferred to personal account / new trustee.

Scenario 3

Assumptions:

1. A member first invested in the Constituent Fund on 1 January 2002 and therefore the guaranteed rate of return of 5% applies to his contributions made on or before 30 September 2004 and 1% applies to any of his contributions made after 30 September 2004.

2. Partial Withdrawal was effected with the QB less than the NB (QB<NB) at the time of withdrawal and the withdrawal amount was less than the total QB.

Illustrations:

End of Year	Actual Annualized Return of the Constituent Fund	End of Year NB (reflects actual investments)	Qualifying Period (reflects period of investment)	Withdrawal made by member	End of Year QB1 (5%) (contributions made on or before 30 September 2004 - subject to 5% rate of return)	End of Year QB2 (1%) (contributions made after 30 September 2004 – subject to 1% rate of return)	End of Year Total QB (QB1 + QB2)
2002	1.00%	HKD5,050	12 months	HKD–	HKD5,250	HKD–	HKD5,250
2003	2.00%	HKD10,251	24 months	HKD–	HKD10,762.50	HKD–	HKD10,762.50
2004	9.00%	HKD16,623.59	36 months	HKD–	HKD16,550.63	HKD–	HKD16,550.63
#2005	7.00%	HKD13,137.24	0 months	HKD10,000	HKD–	HKD12,428.16	HKD12,428.16

This illustrates the position after a withdrawal.

Example 6 illustrates how a partial withdrawal from the Constituent Fund (where QB<NB) will affect the QB, NB, qualifying period of the member and the guaranteed rate of return which will be applicable to the remaining balance.

Illustrative Example 6: As of 31 December 2005, member requested to withdraw HKD10,000 and transferred it to another Constituent Fund. Some contributions were made before 30 September 2004 and some were made after 30 September 2004.

Actual redemption took place on the first day of the following year and the NB for that day was the same as the NB for the previous day.

NB (for End of Year 2005) before withdrawal was HKD23,137.24 (HKD16,623.59 x 1.07 + HKD5,000 x 1.07, i.e. HKD16,623.59 was increased at 7% until the withdrawal was made and new contribution at the beginning of 2005 of HKD5,000 was also increased at 7%).

NB (for End of Year 2005) after the withdrawal was HKD13,137.24 (HKD23,137.24 - HKD10,000).

Total QB (i.e. QB1 + QB2, both for End of Year 2005) before withdrawal was HKD22,428.16 (HKD16,550.63 x 1.05 + HKD5,000 x 1.01, i.e. HKD16,550.63 was increased at 5% until the withdrawal was made and new contribution at the beginning of 2005 of HKD5,000 was increased at 1%).

Since the total QB (for End of Year 2005) was less than the NB (for End of Year 2005) immediately before the withdrawal (HKD22,428.16 < HKD23,137.24), the total QB (for End of Year 2005) will be reduced by the amount withdrawn (HKD10,000).

Total QB after withdrawal	=	HKD22,428.16 - HKD10,000
	=	HKD12,428.16

New guaranteed rate of 1% per annum will be applied to the total QB and any new contributions after the withdrawal. Qualifying period will be reset to zero and the counting of the new qualifying period shall recommence immediately as from 31 December 2005.

Scenario 4

Assumptions:

1. A member first invested in the Constituent Fund on 1 January 2002 and therefore the guaranteed rate of return of 5% applies to his contributions made on or before 30 September 2004 and 1% applies to any of his contributions made after 30 September 2004.

2. Partial Withdrawal was effected with the QB less than the NB (QB<NB) at the time of withdrawal and the withdrawal amount was greater than the total QB.

3. No contribution was made in 2006 and contribution only resumed in 2007.

Illustrations:

End of Year	Actual Annualized Return of the Constituent Fund	End of Year NB (reflects actual investments)	Qualifying Period (reflects period of investment)	Withdrawal made by member	End of Year QB1 (5%) (contributions made on or before 30 September 2004 - subject to 5% rate of return)	End of Year QB2 (1%) (contributions made after 30 September 2004 – subject to 1% rate of return)	End of Year Total QB (QB1 + QB2)
2002	1.00%	HKD5,050	12 months	HKD–	HKD5,250	HKD–	HKD5,250
2003	2.00%	HKD10,251	24 months	HKD–	HKD10,762.50	HKD–	HKD10,762.50
2004	9.00%	HKD16,623.59	36 months	HKD–	HKD16,550.63	HKD–	HKD16,550.63
#2005	7.00%	HKD137.24	0 months	HKD23,000	HKD–	HKD(571.84)	HKD(571.84)
#2006	-12.00%	HKD120.77	12 months	HKD–	HKD–	HKD(571.84)	HKD(571.84)
#2007	10.00%	HKD5,632.85	24 months	HKD–	HKD–	HKD4,472.44	HKD4,472.44

This illustrates the position after a withdrawal.

Example 7 illustrates how a partial withdrawal from the Constituent Fund (where QB<NB) may render the QB "negative".

Example 8 is a continuation of Example 7 and illustrates the reset of the qualifying period and how interest will subsequently be accrued to the QB.

Illustrative Example 7: As of 31 December 2005, member requested to withdraw HKD23,000 and transferred it to another Constituent Fund. Some contributions were made before 30 September 2004 and some were made after 30 September 2004.

Actual redemption took place on the first day of the following year and the NB for that day was the same as the NB for the previous day.

NB (for End of Year 2005) before withdrawal was HKD23,137.24 (HKD16,623.59 x 1.07 + HKD5,000 x 1.07, i.e. HKD16,623.59 was increased at 7% until the withdrawal was made and new contribution at the beginning of 2005 of HKD5,000 was also increased at 7%).

NB (for End of Year 2005) after the withdrawal was HKD137.24 (HKD23,137.24 - HKD23,000).

Total QB (i.e. QB1 + QB2, for End of Year 2005) before withdrawal was HKD22,428.16 (HKD16,550.63 x 1.05 + HKD5,000 x 1.01, i.e. HKD16,550.63 was increased at 5% until the withdrawal was made and new contribution at the beginning of 2005 of HKD5,000 was increased at 1%).

Since the total QB (for End of Year 2005) was less than the NB (for End of Year 2005) immediately before the withdrawal (HKD22,428.16 < HKD23,137.24), the total QB (for End of Year 2005) will be reduced by the amount withdrawn (HKD23,000).

Total QB after withdrawal	=	HKD22,428.16 - HKD23,000
	=	-HKD571.84 (A negative QB does not mean that the member owes Principal money, rather it simply denotes that accrued benefit exceeding the guaranteed amount has already been paid out.)

New guaranteed rate of 1% per annum will be applied to the total QB and any new contributions after the withdrawal. Qualifying period will be reset to zero and the counting of the new qualifying period shall recommence immediately as from 31 December 2005. During the Year 2006, no new contribution was received and the total QB remained at -HKD571.84 (i.e. the total QB (for End of Year 2005) and the total QB (for End of Year 2006) were the same). No interest was accrued to the QB during the Year 2006 as the total QB was negative. As of beginning of Year 2007, new contributions of HKD5,000 were made. The total QB became positive at the beginning of Year 2007 and interest was accrued to the QB for the Year 2007.

Illustrative Example 8: As of 31 December 2007, member's employment was terminated. The qualifying period had been reset to zero as of 31 December 2005. The NB (for End of Year 2005) after withdrawal was HKD137.24 but there was no contribution in 2006. New contribution of HKD5,000 was made at the beginning of 2007. The qualifying period as of 31 December 2007 was 24 months. Member then made a claim for his accrued benefits. Actual redemption took place on the first day of the following year and the NB for that day was the same as the NB for the previous day. Since the qualifying period was less than 36 months, there is no qualifying event. NB (for End of Year 2007) at the sum of HKD5,632.85 will be transferred to personal account / new trustee.

Scenario 5

Assumptions:

1. A member first invested in the Constituent Fund on 1 January 2002 and therefore the guaranteed rate of return of 5% applies to his contributions made on or before 30 September 2004 and 1% applies to any of his contributions made after 30 September 2004.

2. Partial Withdrawal was effected with the QB greater than the NB (QB>NB) at the time of withdrawal.

Illustrations:

End of Year	Actual Annualized Return of the Constituent Fund	End of Year NB (reflects actual investments)	Qualifying Period (reflects period of investment)	Withdrawal made by member	End of Year QB1 (5%) (contributions made on or before 30 September 2004 - subject to 5% rate of return)	End of Year QB2 (1%) (contributions made after 30 September 2004 – subject to 1% rate of return)	End of Year Total QB (QB1 + QB2)
2002	1.00%	HKD5,050	12 months	HKD–	HKD5,250	HKD–	HKD5,250
2003	2.00%	HKD10,251	24 months	HKD–	HKD10,762.50	HKD–	HKD10,762.50
2004	3.00%	HKD15,708.53	36 months	HKD–	HKD16,550.63	HKD–	HKD16,550.63
#2005	7.00%	HKD158.13	0 months	HKD22,000	HKD–	HKD158.13	HKD158.13

This illustrates the position after a withdrawal.

Example 9 illustrates how a partial withdrawal from the Constituent Fund (where QB>NB) will affect the QB, NB, qualifying period of the member and the guaranteed rate of return which will be applicable to the remaining balance.

Illustrative Example 9: As of 31 December 2005, member requested to withdraw HKD22,000 and transferred it to another Constituent Fund. Some contributions were made before 30 September 2004 and some were made after 30 September 2004.

Actual redemption took place on the first day of the following year and the NB for that day was the same as the NB for the previous day.

NB (for End of Year 2005) before withdrawal was HKD22,158.13 (HKD15,708.53 x 1.07 + HKD5,000 x 1.07, i.e. HKD15,708.53 was increased at 7% until the withdrawal was made and new contribution at the beginning of 2005 of HKD5,000 was also increased at 7%).

Total QB (i.e. QB1 + QB2, both for End of Year 2005) before withdrawal was HKD22,428.16 (HKD16,550.63 x 1.05 + HKD5,000 x 1.01, i.e. HKD16,550.63 was increased at 5% until the withdrawal was made and new contribution at the beginning of 2005 of HKD5,000 was increased at 1%).

NB (for End of Year 2005) after withdrawal	=	HKD22,158.13 - HKD22,000
	=	HKD158.13

Since the total QB (for End of Year 2005) was greater than the NB (for End of Year 2005) immediately before the withdrawal (HKD22,428.16 > HKD22,158.13), the total QB (for End of Year 2005) after withdrawal will be reset to an amount equal to the NB (for End of Year 2005) after withdrawal.

Total QB after withdrawal	=	NB after withdrawal
	=	HKD158.13

New guaranteed rate of 1% per annum will be applied to the total QB and any new contributions after the withdrawal. Qualifying period will be reset to zero and the counting of new qualifying period shall recommence immediately as from 31 December 2005.

Scenario 6

Assumptions:

1. A member first invested in the Constituent Fund on 1 January 2002 and therefore the guaranteed rate of return of 5% applies to his contributions made on or before 30 September 2004 and 1% applies to any of his contributions made after 30 September 2004.

2. Full Withdrawal was effected with the QB less than the NB (QB<NB) at the time of withdrawal.

3. No contribution was made in 2006 and contribution only resumes in 2007.

Illustrations:

End of Year	Actual Annualized Return of the Constituent Fund	End of Year NB (reflects actual investments)	Qualifying Period (reflects period of investment)	Withdrawal made by member	End of Year QB1 (5%) (contributions made on or before 30 September 2004 - subject to 5% rate of return)	End of Year QB2 (1%) (contributions made after 30 September 2004 – subject to 1% rate of return)	End of Year Total QB (QB1 + QB2)
2002	1.00%	HKD5,050	12 months	HKD–	HKD5,250	HKD–	HKD5,250
2003	2.00%	HKD10,251	24 months	HKD–	HKD10,762.50	HKD–	HKD10,762.50
2004	9.00%	HKD16,623.59	36 months	HKD–	HKD16,550.63	HKD–	HKD16,550.63
#2005	7.00%	HKD–	0* months	HKD23,137.24 (full withdrawal)	HKD–	HKD(709.08)	HKD(709.08)
#2006	-12.00%	HKD–	0* months	HKD–	HKD–	HKD(709.08)	HKD(709.08)
#2007	10.00%	HKD5,500	12 months	HKD–	HKD–	HKD4,333.83	HKD4,333.83

This illustrates the position after a withdrawal.

* There is no qualifying period when the NB is zero.

Example 10 illustrates how a full withdrawal from the Constituent Fund (where QB<NB) may render the QB "negative".

Example 11 is a continuation of Example 10 and illustrates the suspension of the qualifying period when the NB is zero.

Illustrative Example 10: As of 31 December 2005, member requested full withdrawal (i.e. HKD23,137.24) and transferred the amount to another Constituent Fund. Some contributions were made before 30 September 2004 and some were made after 30 September 2004. Actual redemption took place on the first day of the following year and the NB for that day was the same as the NB for the previous day.

NB (for End of Year 2005) before withdrawal was HKD23,137.24 (HKD16,623.59 x 1.07 + HKD5,000 x 1.07, i.e. HKD16,623.59 was increased at 7% until the withdrawal was made and new contribution at the beginning of 2005 of HKD5,000 was also increased at 7%).

NB (for End of Year 2005) after the withdrawal was HKD0 (since it was a full withdrawal).

Total QB (i.e. QB1 + QB2, both for End of Year 2005) before withdrawal was HKD22,428.16 (HKD16,550.63 x 1.05 + HKD5,000 x 1.01, i.e. HKD16,550.63 was increased at 5% until the withdrawal was made and new contribution at the beginning of 2005 of HKD5,000 was increased at 1%).

Since the total QB (for End of Year 2005) was less than the NB (for End of Year 2005) immediately before the withdrawal (HKD22,428.16 < HKD23,137.24), the total QB (for End of Year 2005) will be reduced by the amount withdrawn (HKD23,137.24).

Total QB after withdrawal	=	HKD22,428.16 - HKD23,137.24
	=	-HKD709.08 (A negative QB does not mean that the member owes Principal money, rather it simply denotes that accrued benefit exceeding the guaranteed amount has already been paid out.)

New guaranteed rate of 1% per annum will be applied to the total QB and any new contributions after the withdrawal. Qualifying period will be reset to zero and the counting of the qualifying period shall only recommence when new contributions are made so that NB is greater than zero. During the Year 2006, no new contribution was received and the total QB remained at -HKD709.08 (i.e. the total QB (for End of Year 2005) and the total QB (for End of Year 2006) were the same). No interest was accrued to the QB during the Year 2006 as the total QB was negative. As of beginning of Year 2007, new contributions of HKD5,000 were made. The total QB became positive at the beginning of Year 2007 and interest was accrued to the QB for the Year 2007.

Illustrative Example 11: The qualifying period was reset to zero as of 31 December 2005 upon full withdrawal from the Constituent Fund and was suspended when the NB remained at zero. The qualifying period only recommenced when new contributions of HKD5,000 were made on 1 January 2007.

As of 31 December 2007, member's employment was terminated. As the QB only became positive when new contributions of HKD5,000 were made on 1 January 2007, the qualifying period as at 31 December 2007 was 12 months. Member then made a claim for his accrued benefits. Since the qualifying period was less than 36 months, there is no qualifying event. Actual redemption took place on the first day of the following year and the NB for that day was the same as the NB for the previous day. The NB (for End of Year 2007) at the sum of HKD5,500 will be transferred to personal account / new trustee.

Scenario 7

Assumptions:

1. A member first invested in the Constituent Fund on 1 January 2002 and therefore the guaranteed rate of return of 5% applies to his contributions made on or before 30 September 2004 and 1% applies to any of his contributions made after 30 September 2004.

2. Full Withdrawal was effected with the QB greater than the NB (QB>NB) at the time of withdrawal.

Illustrations:

End of Year	Actual Annualized Return of the Constituent Fund	End of Year NB (reflects actual investments)	Qualifying Period (reflects period of investment)	Withdrawal made by member	End of Year QB1 (5%) (contributions made on or before 30 September 2004 - subject to 5% rate of return)	End of Year QB2 (1%) (contributions made after 30 September 2004 – subject to 1% rate of return)	End of Year Total QB (QB1 + QB2)
2002	1.00%	HKD5,050	12 months	HKD–	HKD5,250	HKD–	HKD5,250
2003	2.00%	HKD10,251	24 months	HKD–	HKD10,762.50	HKD–	HKD10,762.50
2004	3.00%	HKD15,708.53	36 months	HKD–	HKD16,550.63	HKD–	HKD16,550.63
#2005	7.00%	HKD–	0* months	HKD22,158.13 (full withdrawal)	HKD–	HKD–	HKD–

This illustrates the position after a withdrawal.

* There is no qualifying period when the NB is zero.

Example 12 illustrates how a full withdrawal from the Constituent Fund (where QB>NB) will affect the QB, NB and the qualifying period of the member.

Illustrative Example 12: As of 31 December 2005, member requested full withdrawal (i.e. HKD22,158.13) and transferred the amount to another Constituent Fund. Some contributions were made before 30 September 2004 and some were made after 30 September 2004.

Actual redemption took place on the first day of the following year and the NB for that day was the same as the NB for the previous day.

NB (for End of Year 2005) before withdrawal was HKD22,158.13 (HKD15,708.53 x 1.07 + HKD5,000 x 1.07, i.e. HKD15,708.53 was increased at 7% until the withdrawal was made and new contribution at the beginning of 2005 of HKD5,000 was also increased at 7%).

Total QB (i.e. QB1 + QB2, both for End of Year 2005) before withdrawal was HKD22,428.16 (HKD16,550.63 x 1.05 + HKD5,000 x 1.01, i.e. HKD16,550.63 was increased at 5% until the withdrawal was made and new contribution at the beginning of 2005 of HKD5,000 was increased at 1%).

NB (for End of Year 2005) after withdrawal	=	HKD22,158.13 - HKD22,158.13
	=	HKD0 (since it was a full withdrawal)

Since the total QB (for End of Year 2005) was greater than the NB (for End of Year 2005) immediately before the withdrawal (HKD22,428.16 > HKD22,158.13), the total QB (for End of Year 2005) after withdrawal will be reset to an amount equal to the NB (for End of Year 2005) after withdrawal.

Total QB after withdrawal	=	NB after withdrawal
	=	HKD0

New guaranteed rate of 1% per annum will be applied to the total QB and any subsequent contributions after the withdrawal.

Qualifying period will be reset to zero and the counting of the qualifying period shall only recommence when new contributions are made so that NB is greater than zero.

Scenario 8

Pro-rata Calculation of Qualifying Balance

Assumptions:

1. A member first invested in the Constituent Fund on 1 January 2002 and therefore the guaranteed rate of return of 5% applies to his contributions made on or before 30 September 2004 and 1% applies to any of his contributions made after 30 September 2004.

2. No redemption, switching or withdrawal was made.

Illustrations:

End of Year	Actual Annualized Return of the Constituent Fund	End of Year NB (reflects actual investments)	Qualifying Period (reflects period of investment)	End of Year QB1 (5%) (contributions made on or before 30 September 2004 - subject to 5% rate of return)	End of Year QB2 (1%) (contributions made after 30 September 2004 – subject to 1% rate of return)	End of Year Total QB (QB1 + QB2)
2002	1.00%	HKD2,525	12 months	HKD2,625	HKD–	HKD2,625
2003	2.00%	HKD7,675.50	24 months	HKD8,006.25	HKD–	HKD8,006.25

Example 13 illustrates how the guarantee is applied to the employee's and participating employer's voluntary contributions, where the member's entitlement to the participating employer's voluntary contribution is subject to the application of a vesting scale.

Participating employer made a voluntary contribution of HKD2,500 at the beginning of each year starting from 1 January 2002. Member made a voluntary contribution of HKD2,500 at the beginning of each year starting from 1 January 2003. Member was employed since 1 January 2002. The vesting scale of the participating employer's voluntary contributions is as follows:

Year(s) of Service	1	2	3	4	5 or above
Vesting Scale	0%	10%	30%	50%	100%

Illustrative Example 13: As of 31 December 2003, member departed from Hong Kong permanently. Member then made a claim for his accrued benefits. All relevant contributions were made before 30 September 2004. Actual redemption took place on the first day of the following year and the NB for that day was the same as the NB for the previous day.

Since permanent departure from Hong Kong is a qualifying event, the greater of the (i) total QB (i.e. QB1 + QB2, both for End of Year 2003) and (ii) the NB (for End of Year 2003) will be paid. However, member will only be entitled to a pro-rata value of the total QB which is attributable to the vested accrued benefits of the member, and the remaining balance of the total QB representing the unvested portion will be paid to the participating employer. In this example, this means the pro-rata value of the total QB (for End of Year 2003) in respect of the participating employer's voluntary contributions will be determined based on the NB (for End of Year 2003) of the participating employer's and member's voluntary contributions.

NB of member's voluntary contributions	=	HKD2,550 (HKD2,500 x (1+ 2%))
NB of participating employer's voluntary contributions	=	HKD5,125.50 (HKD2,500 x (1 + 1%) x (1 + 2%) + HKD2,500 x (1 + 2%))
Total QB of member's voluntary contributions	=	HKD2,659.88 (HKD8,006.25 x (HKD2,550/ HKD7,675.50)) (where HKD7,675.50 is the sum of HKD2,550 and HKD5,125.50)
Total QB of participating employer's voluntary contributions	=	HKD5,346.37 (HKD8,006.25 x (HKD5,125.50/ HKD7,675.50))

As the respective total QB was greater than the relevant NB, the respective total QB will be payable subject to the vesting scale above. Member was entitled to 100% of his own voluntary contributions and 10% of participating employer's voluntary contributions since member had only completed 2 years of service.

Therefore, HKD3,194.52 will be paid to member (HKD2,659.88 + 10% x HKD5,346.37) and HKD4,811.73 (90% x HKD5,346.37) will be paid to participating employer.

Scenario 9

Participating Employer makes a claim for Severance Payment

Assumptions:

1. A member first invested in the Constituent Fund on 1 January 2002 and therefore the guaranteed rate of return of 5% applies to his contributions made on or before 30 September 2004 and 1% applies to any of his contributions made after 30 September 2004.

2. Out of the annual contribution of HKD5,000, HKD2,500 was contributed by the participating employer and HKD2,500 was contributed by the employee. All contributions were fully vested in the employee.

3. No redemption, switching or withdrawal was made.

4. Member's employment was terminated at End of Year 2005. Participating employer made a claim for severance payment paid.

Illustrations:

End of Year	Actual Annualized Return of the Constituent Fund	End of Year NB (reflects actual investments)	Qualifying Period (reflects period of investment)	End of Year QB1 (5%) (contributions made on or before 30 September 2004 - subject to 5% rate of return)	End of Year QB2 (1%) (contributions made after 30 September 2004 – subject to 1% rate of return)	End of Year Total QB (QB1 + QB2)
2002	1.00%	HKD5,050	12 months	HKD5,250	HKD–	HKD5,250
2003	2.00%	HKD10,251	24 months	HKD10,762.50	HKD–	HKD10,762.50
2004	9.00%	HKD16,623.59	36 months	HKD16,550.63	HKD–	HKD16,550.63
2005	1.00%	HKD21,839.83	48 months	HKD17,378.16	HKD5,050	HKD22,428.16

Example 14 illustrates how the guarantee is applied when the participating employer makes a claim for severance payment paid.

Illustrative Example 14: As of 31 December 2005, member's employment was terminated. Participating employer paid a severance payment of HKD5,000 to employee and claimed a set off payment from the Trustee. Member then made a claim for his accrued benefits. Actual redemption took place on the first day of the following year and the NB for that day was the same as the NB for the previous day.

Since the qualifying period of the employee was 48 months, there is a qualifying event. The employee will be entitled to the greater of (i) the total QB (i.e. QB1 + QB2, both for End of Year 2005) and (ii) the NB (for End of Year 2005).

QB1 + QB2 = HKD22,428.16
= (HKD5,000 x 1.05 x 1.05 x 1.05 x 1.05 + HKD5,000 x 1.05 x 1.05 x 1.05 + HKD5,000 x 1.05 x 1.05 + HKD5,000 x 1.01)

NB = HKD21,839.83
= (HKD5,000 x 1.01 x 1.02 x 1.09 x 1.01 + HKD5,000 x 1.02 x 1.09 x 1.01 + HKD5,000 x 1.09 x 1.01 + HKD5,000 x 1.01)

Therefore, the employee will be entitled to HKD22,428.16. However, the participating employer had made a claim of HKD5,000 and such an amount shall be paid to the participating employer from the pro-rata value of the total QB which was attributable to the participating employer's contributions.

The pro-rata value of the total QB (for End of Year 2005) in respect of the employer's contributions will be determined based on the NB (for End of Year 2005) of the participating employer's and member's contributions.

NB of member's contributions	=	HKD10,919.92 (HKD2,500 x 1.01 x 1.02 x 1.09 x 1.01 + HKD2,500 x 1.02 x 1.09 x 1.01 + HKD2,500 x 1.09 x 1.01 + HKD2,500 x 1.01)
NB of participating employer's contributions	=	HKD10,919.92 (HKD2,500 x 1.01 x 1.02 x 1.09 x 1.01 + HKD2,500 x 1.02 x 1.09 x 1.01 + HKD2,500 x 1.09 x 1.01 + HKD2,500 x 1.01)
Total QB of member's contributions	=	HKD11,214.08 (HKD22,428.16 x (HKD10,919.92/ HKD21,839.83))
Total QB of participating employer's contributions	=	HKD11,214.08 (HKD22,428.16 x (HKD10,919.92/ HKD21,839.83))

The participating employer's claim of HKD5,000 will be paid to the participating employer from the total QB of participating employer's contributions (i.e. HKD11,214.08). As a result, the employee will only receive an amount of HKD17,428.16 (i.e. HKD11,214.08 + (HKD11,214.08 - HKD5,000)) and the participating employer will receive the set-off payment of HKD5,000.

C. Illustrations of Operation of the Guarantee if the Employee Member or Self-Employed Person makes a claim for terminal illness without termination of employment

1. The warnings and assumptions set out in section A (Illustration of the Guarantee Mechanism) and section B (Assumptions relating to Illustrations) of this Appendix also apply to this section C.

Example 1

Assumptions:

1. A member has been investing in the Constituent Fund since 1 January 2002 and therefore the guaranteed rate of return of 5% applies to his contributions (both mandatory and voluntary) made on or before 30 September 2004 and 1% applies to any of his contributions made after 30 September 2004.

2. No redemption, switching or withdrawal has been made.

3. Member submitted a claim of terminal illness at End of Year 2015. At the time of claim, the QB is greater than NB.*

* This same logic beneath also applies to a claim when QB is equal to NB.

Illustrations:

Transaction Date	NB (reflects actual investments) - Mandatory Contribution	NB (reflects actual investments) - Voluntary Contribution	Total NB (MC + VC)	Qualifying Period (reflects period of investment)	QB1 (5%) (contributions made on or before 30 September 2004 - subject to 5% rate of return)	QB2 (1%) (contributions made after 30 September 2004 - subject to 1% rate of return)	Total QB (QB1 + QB2)
31/12/2015	HKD10,000	HKD10,000	HKD20,000	168 months	HKD25,000	HKD5,000	HKD30,000

Example 1 illustrates how a terminal illness withdrawal (without employment termination) from the Constituent Fund will affect the QB, NB and the qualifying period of the member (including an employee member or self-employed person).

Illustrative Example 1: On 31 December 2015, member claimed for terminal illness without employment termination. Since the member was only entitled to mandatory contributions (MC) upon a claim of terminal illness while he still remained employed under the current employment or self-employment, HKD10,000 was paid from member's balance derived from MC. QB1 and QB2 will be proportionately reduced while the qualifying period of the member will not be affected.

Since total QB is greater than total NB, member was entitled for QB. The QB entitlement in respect to the withdrawal of MC will be calculated on a pro-rata basis.

QB1 for MC will be pro-rated according to the ratio between MC and total NB = HKD10,000/HKD20,000 x HKD25,000 = HKD12,500

QB2 for MC will be pro-rated according to the ratio between MC and total NB = HKD10,000/HKD20,000 x HKD5,000 = HKD2,500

Total QB for MC will be HKD15,000; qualifying period for the remaining balance on voluntary contributions (VC) will not be reset.

After the claim, NB, QB and qualifying period of the member's MC and VC account balances were as follows:

Transaction Date	NB (reflects actual investments) - Mandatory Contribution	NB (reflects actual investments) - Voluntary Contribution	Total NB (MC + VC)	Qualifying Period (reflects period of investment)	QB1 (5%) (contributions made on or before 30 September 2004 - subject to 5% rate of return)	QB2 (1%) (contributions made after 30 September 2004 - subject to 1% rate of return)	Total QB (QB1 + QB2)
31/12/2015	HKD0	HKD10,000	HKD10,000	168 months	HKD12,500	HKD2,500	HKD15,000

Example 2

Assumptions:

1. A member has been investing in the Constituent Fund since 1 January 2002 and therefore the guaranteed rate of return of 5% applies to his contributions (both mandatory and voluntary) made on or before 30 September 2004 and 1% applies to any of his contributions made after 30 September 2004.

2. No redemption, switching or withdrawal has been made.

3. Member submitted a claim of terminal illness at End of Year 2015. At the time of claim, the QB was smaller than NB.

Illustrations:

Transaction Date	NB (reflects actual investments) - Mandatory Contribution	NB (reflects actual investments) - Voluntary Contribution	Total NB (MC + VC)	Qualifying Period (reflects period of investment)	QB1 (5%) (contributions made on or before 30 September 2004 - subject to 5% rate of return)	QB2 (1%) (contributions made after 30 September 2004 - subject to 1% rate of return)	Total QB (QB1 + QB2)
31/12/2015	HKD50,000	HKD10,000	HKD60,000	168 months	HKD40,000	HKD10,000	HKD50,000

Example 2 illustrates how a terminal illness withdrawal (without employment termination) from the Constituent Fund will affect the QB, NB and the qualifying period of the member (including employee member or self-employed person).

Illustrative Example 2: On 31 December 2015, member claimed for terminal illness without employment termination. Since the member was only entitled to mandatory contributions (MC) upon a claim of terminal illness while he still remained employed under the current employment or self-employment, HKD50,000 was paid from member's balance derived from MC. New guaranteed rate of 1% per annum will be applied to the total QB and any new contributions after the withdrawal while the qualifying period of the member will not be affected.

NB before withdrawal was HKD60,000.

NB after the terminal illness withdrawal was HKD60,000 - HKD50,000 (MC) = HKD10,000

Total QB before withdrawal was HKD50,000.

Since total QB (HKD50,000) was less than the NB (HKD60,000) immediately before the withdrawal of HKD50,000, the total QB will be reduced by the amount withdrawn (HKD50,000).

Total QB after withdrawal = HKD50,000 - HKD50,000
= HKD0

After the claim, NB, QB and qualifying period of the member's MC and VC account balances were as follows:

Transaction Date	NB (reflects actual investments) - Mandatory Contribution	NB (reflects actual investments) - Voluntary Contribution	Total NB (MC + VC)	Qualifying Period (reflects period of investment)	QB1 (5%) (contributions made on or before 30 September 2004 - subject to 5% rate of return)	QB2 (1%) (contributions made after 30 September 2004 - subject to 1% rate of return)	Total QB (QB1 + QB2)
31/12/2015	HKD0	HKD10,000	HKD10,000	168 months	HKD0	HKD0	HKD0

Example 3

Assumptions:

1. A member has been investing in the Constituent Fund since 1 January 2002 and therefore the guaranteed rate of return of 5% applies to his contributions (both mandatory and voluntary) made on or before 30 September 2004 and 1% applies to any of his contributions made after 30 September 2004.

2. No redemption, switching or withdrawal has been made.

3. Member submitted a claim of terminal illness at End of Year 2015. At the time of claim, the QB was smaller than NB.

Illustrations:

Transaction Date	NB (reflects actual investments) - Mandatory Contribution	NB (reflects actual investments) - Voluntary Contribution	Total NB (MC + VC)	Qualifying Period (reflects period of investment)	QB1 (5%) (contributions made on or before 30 September 2004 - subject to 5% rate of return)	QB2 (1%) (contributions made after 30 September 2004 - subject to 1% rate of return)	Total QB (QB1 + QB2)
31/12/2015	HKD50,000	HKD10,000	HKD60,000	168 months	HKD37,500	HKD7,500	HKD45,000

Example 3 illustrates how a terminal illness withdrawal (without employment termination) from the Constituent Fund will affect the QB, NB and the qualifying period of the member (including an employee member or self-employed person).

Illustrative Example 3: On 31 December 2015, member claimed for terminal illness without employment termination. Since the member was only entitled to mandatory contributions (MC) upon a claim of terminal illness while he still remained employed under the current employment or self-employment, therefore HKD50,000 was paid from member's balance derived from MC. New guaranteed rate of 1% per annum will be applied to the total QB and any new contributions after the withdrawal while the qualifying period of the member will not be affected.

NB before withdrawal was HKD60,000.

NB after the terminal illness withdrawal was HKD60,000 - HKD50,000 (MC) = HKD10,000

Total QB before withdrawal was HKD45,000.

Since total QB (HKD45,000) was less than the NB (HKD60,000) immediately before the withdrawal of HKD50,000, the total QB will be reduced by the amount withdrawn (HKD50,000).

Total QB after withdrawal = HKD45,000 - HKD50,000
= -HKD5,000 (A negative QB does not mean that the member owes Principal money, rather it simply denotes that a benefit exceeding the guaranteed amount has already been paid out.)

After the claim, NB, QB and qualifying period of the member's MC and VC account balances were as follows:

Transaction Date	NB (reflects actual investments) - Mandatory Contribution	NB (reflects actual investments) - Voluntary Contribution	Total NB (MC + VC)	Qualifying Period (reflects period of investment)	QB1 (5%) (contributions made on or before 30 September 2004 - subject to 5% rate of return)	QB2 (1%) (contributions made after 30 September 2004 - subject to 1% rate of return)	Total QB (QB1 + QB2)
31/12/2015	HKD0	HKD10,000	HKD10,000	168 months	HKD0	(HKD5,000)	(HKD5,000)

Example 4

Assumptions:

1. A member has been investing in the Constituent Fund since 1 January 2002 and therefore the guaranteed rate of return of 5% applies to his contributions (both mandatory and voluntary) made on or before 30 September 2004 and 1% applies to any of his contributions made after 30 September 2004.

2. No redemption, switching or withdrawal has been made.

3. Member submitted a claim of terminal illness at End of Year 2015. At the time of claim, the QB was smaller than NB.

Illustrations:

Transaction Date	NB (reflects actual investments) - Mandatory Contribution	NB (reflects actual investments) - Voluntary Contribution	Total NB (MC + VC)	Qualifying Period (reflects period of investment)	QB1 (5%) (contributions made on or before 30 September 2004 - subject to 5% rate of return)	QB2 (1%) (contributions made after 30 September 2004 - subject to 1% rate of return)	Total QB (QB1 + QB2)
31/12/2015	HKD45,000	HKD15,000	HKD60,000	168 months	HKD40,000	HKD10,000	HKD50,000

Example 4 illustrates how a terminal illness withdrawal (without employment termination) from the Constituent Fund will affect the QB, NB and the qualifying period of the member (including an employee member or self-employed person).

Illustrative Example 4: On 31 December 2015, member claimed for terminal illness without employment termination. Since the member was only entitled to mandatory contributions (MC) upon a claim of terminal illness while he still remained employed under the current employment or self-employment, therefore HKD45,000 was paid from member's balance derived from MC. New guaranteed rate of 1% per annum will be applied to the total QB and any new contributions after the withdrawal while the qualifying period of the member will not be affected.

NB before withdrawal was HKD60,000.

NB after the terminal illness withdrawal was HKD60,000 - HKD45,000 (MC) = HKD15,000

Total QB before withdrawal was HKD50,000.

Since total QB (HKD50,000) was less than the NB (HKD60,000) immediately before the withdrawal of HKD45,000, the total QB will be reduced by the amount withdrawn (HKD45,000).

Total QB after withdrawal = HKD50,000 - HKD45,000
= HKD5,000

After the claim, NB, QB and qualifying period of the member's MC and VC account balances were as follows:

Transaction Date	NB (reflects actual investments) - Mandatory Contribution	NB (reflects actual investments) - Voluntary Contribution	Total NB (MC + VC)	Qualifying Period (reflects period of investment)	QB1 (5%) (contributions made on or before 30 September 2004 - subject to 5% rate of return)	QB2 (1%) (contributions made after 30 September 2004 - subject to 1% rate of return)	Total QB (QB1 + QB2)
31/12/2015	HKD0	HKD15,000	HKD15,000	168 months	HKD0	HKD5,000	HKD5,000

D. Illustrations of Operation of the Guarantee if the Employee Member or Self-Employed Person makes a claim for withdrawal of accrued benefits by instalment

Assumptions:

1. A member has been investing in the Constituent Fund since 1 January 2002 and therefore the guaranteed rate of return of 5% applies to his contributions made on or before 30 September 2004 and 1% applies to any of his contributions made after 30 September 2004.

2. No redemption, switching or withdrawal has been made.

Illustrations:

End of Year	Actual Annualized Return of the Constituent Fund	End of Year NB (reflects actual investments)	Qualifying Period (reflects period of investment)	QB1 (5%) (contributions made on or before 30 September 2004 - subject to 5% rate of return)	QB2 (1%) (contributions made after 30 September 2004 – subject to 1% rate of return)	End of Year Total QB (QB1 + QB2)
2016	2.00%	HKD2,000	180 months	HKD25,000	HKD5,000	HKD30,000

Example 1 illustrates how an employee member can first file a Valid Claim to cease employment and withdraw all accrued benefits under his last employment and transfer all accrued benefits to a personal account before making any phased withdrawal.

Illustrative Example 1: As of 31 December 2016, member claimed for retirement and ceased employment. Since retirement is a qualifying event and withdrawing all accrued benefits fulfils the definition of Valid Claim, the member was entitled to the greater of the NB and the QB, therefore HKD30,000 was transferred from employee's contribution account to personal account. After the claim, NB, QB and qualifying period of the personal account were as follows. No other new contribution is made to the personal account thereafter.

Member's Personal Account

End of Year	Actual Annualized Return of the Constituent Fund	End of Year NB (reflects actual investments)	Qualifying Period (reflects period of investment)	QB1 (5%) (contributions made on or before 30 September 2004 - subject to 5% rate of return)	QB2 (1%) (contributions made after 30 September 2004 – subject to 1% rate of return)	End of Year Total QB (QB1 + QB2)
2016	2.00%	HKD30,000	-	HKD0	HKD30,000	HKD30,000
2017	2.00%	HKD30,600	-	HKD0	HKD30,300	HKD30,300

Example 2 illustrates how the guarantee will be affected when member makes phased withdrawal under the personal account.

Illustrative Example 2: As of 31 December 2017, member decided to effect a phased withdrawal and withdrew HKD2,000 from the personal account. Since not all accrual benefit was withdrawn, it did not satisfy the requirement of a Valid Claim, therefore the remaining QB would be adjusted as if it were a partial withdrawal.

NB before withdrawal was HKD30,600.
NB after withdrawal was HKD28,600 (i.e. HKD30,600 - HKD2,000).

QB before withdrawal was HKD30,300.
QB after withdrawal was HKD28,300 (i.e. [minimum of HKD30,600 and HKD30,300] - HKD2,000).

After the withdrawal, NB, QB and qualifying period of the personal account were as follows. No other new contribution is made to the personal account thereafter.

Member's Personal Account

End of Year	Actual Annualized Return of the Constituent Fund	End of Year NB (reflects actual investments)	Qualifying Period (reflects period of investment)	QB1 (5%) (contributions made on or before 30 September 2004 - subject to 5% rate of return)	QB2 (1%) (contributions made after 30 September 2004 – subject to 1% rate of return)	End of Year Total QB (QB1 + QB2)
2017	2.00%	HKD28,600	-	HKD0	HKD28,300	HKD28,300
2018	-1.00%	HKD28,314	-	HKD0	HKD28,583	HKD28,583

Example 3 illustrates how the guarantee will continue to apply after a phased withdrawal.

Illustrative Example 3: As of 31 December 2018, member decided to fully withdraw the remaining accrued benefits for the reason of retirement. Since retirement is a qualifying event and withdrawing all accrued benefits fulfils the definition of a Valid Claim, member was entitled to the greater of the NB and the QB.

		Personal Account
QB	=	HKD28,583
NB	=	HKD28,314

Therefore, HKD28,583 will be paid from member's personal account.

E. Illustrations of Operation of the Guarantee if the Employee Member makes a claim for withdrawal of accrued benefits by instalments while remaining in employment

Example 1

Assumptions:

1. An employee member has been investing in the Constituent Fund since 1 January 2002 and therefore the guaranteed rate of return of 5% applies to his contributions (both mandatory and voluntary) made on or before 30 September 2004 and 1% applies to any of his contributions made after 30 September 2004.

2. No redemption, switching or withdrawal has been made.

3. The employee member who had reached retirement age but remained employed submitted a claim of phased withdrawal at End of Year 2016. At the time of claim, the QB was greater than NB.*

* This same logic beneath also applies to a claim when QB is equal to NB.

Illustrations:

Transaction Date	NB (reflects actual investments) - Mandatory Contribution	NB (reflects actual investments) - Voluntary Contribution	Total NB (MC + VC)	Qualifying Period (reflects period of investment)	QB1 (5%) (contributions made on or before 30 September 2004 - subject to 5% rate of return)	QB2 (1%) (contributions made after 30 September 2004 - subject to 1% rate of return)	Total QB (QB1 + QB2)
31/12/2016	HKD10,000	HKD10,000	HKD20,000	180 months	HKD25,000	HKD5,000	HKD30,000

Example 1 illustrates how a phased withdrawal (without employment termination) from the Constituent Fund will affect the QB, NB and the qualifying period of the employee member.

Illustrative Example 1: As of 31 December 2016, employee member reached retirement age and claimed for phased withdrawal without employment termination. Since the member was only entitled to mandatory contributions (MC) upon a claim of phased withdrawal while he still remained employed under the current employment, HKD10,000 was paid from member's balance derived from MC. QB1 and QB2 will be proportionately reduced while the qualifying period of the member will not be affected.

Since total QB is greater than total NB, member was entitled for QB. The QB entitlement in respect to the withdrawal of MC will be calculated on a pro-rata basis.

QB1 for MC will be pro-rated according to the ratio between MC and total NB = HKD10,000/HKD20,000 x HKD25,000 = HKD12,500

QB2 for MC will be pro-rated according to the ratio between MC and total NB = HKD10,000/HKD20,000 x HKD5,000 = HKD2,500

Total QB for MC will be HKD15,000; qualifying period for the remaining balance on voluntary contributions (VC) will not be reset.

After the claim, NB, QB and qualifying period of the member's contribution account showing the breakdown of MC and VC account balances were as follows:

Transaction Date	NB (reflects actual investments) - Mandatory Contribution	NB (reflects actual investments) - Voluntary Contribution	Total NB (MC + VC)	Qualifying Period (reflects period of investment)	QB1 (5%) (contributions made on or before 30 September 2004 - subject to 5% rate of return)	QB2 (1%) (contributions made after 30 September 2004 - subject to 1% rate of return)	Total QB (QB1 + QB2)
31/12/2016	HKD0	HKD10,000	HKD10,000	180 months	HKD12,500	HKD2,500	HKD15,000

Example 2

Assumptions:

1. An employee member has been investing in the Constituent Fund since 1 January 2002 and therefore the guaranteed rate of return of 5% applies to his contributions (both mandatory and voluntary) made on or before 30 September 2004 and 1% applies to any of his contributions made after 30 September 2004.

2. No redemption, switching or withdrawal has been made.

3. The employee member who had reached retirement age but remained employed submitted a claim of phased withdrawal at End of Year 2016. At the time of claim, the QB was smaller than NB.

Illustrations:

Transaction Date	NB (reflects actual investments) - Mandatory Contribution	NB (reflects actual investments) - Voluntary Contribution	Total NB (MC + VC)	Qualifying Period (reflects period of investment)	QB1 (5%) (contributions made on or before 30 September 2004 - subject to 5% rate of return)	QB2 (1%) (contributions made after 30 September 2004 - subject to 1% rate of return)	Total QB (QB1 + QB2)
31/12/2016	HKD50,000	HKD10,000	HKD60,000	180 months	HKD40,000	HKD10,000	HKD50,000

Example 2 illustrates how a phased withdrawal (without employment termination) from the Constituent Fund will affect the QB, NB and the qualifying period of the employee member.

Illustrative Example 2: As of 31 December 2016, member reached retirement age and claimed for phased withdrawal without employment termination. Since the member was only entitled to mandatory contributions (MC) upon a claim of phased withdrawal while he still remained employed under the current employment, HKD50,000 was paid from member's balance derived from MC. New guaranteed rate of 1% per annum will be applied to the total QB and any new contributions after the withdrawal while the qualifying period of the member will not be affected.

NB before withdrawal was HKD60,000.

NB after the phased withdrawal was HKD60,000 - HKD50,000 (MC) = HKD10,000

Total QB before withdrawal was HKD50,000.

Since total QB (HKD50,000) was less than the NB (HKD60,000) immediately before the withdrawal of HKD50,000, the total QB will be reduced by the amount withdrawn (HKD50,000).

Total QB after withdrawal = HKD50,000 - HKD50,000 = HKD0

After the claim, NB, QB and qualifying period of the member's contribution account showing the breakdown of MC and VC account balances were as follows:

Transaction Date	NB (reflects actual investments) - Mandatory Contribution	NB (reflects actual investments) - Voluntary Contribution	Total NB (MC + VC)	Qualifying Period (reflects period of investment)	QB1 (5%) (contributions made on or before 30 September 2004 - subject to 5% rate of return)	QB2 (1%) (contributions made after 30 September 2004 - subject to 1% rate of return)	Total QB (QB1 + QB2)
31/12/2016	HKD0	HKD10,000	HKD10,000	180 months	HKD0	HKD0	HKD0

Example 3

Assumptions:

1. An employee member has been investing in the Constituent Fund since 1 January 2002 and therefore the guaranteed rate of return of 5% applies to his contributions (both mandatory and voluntary) made on or before 30 September 2004 and 1% applies to any of his contributions made after 30 September 2004.

2. No redemption, switching or withdrawal has been made.

3. The employee member who had reached retirement age but remained employed submitted a claim of phased withdrawal at End of Year 2016. At the time of claim, the QB was smaller than NB.

Illustrations:

Transaction Date	NB (reflects actual investments) - Mandatory Contribution	NB (reflects actual investments) - Voluntary Contribution	Total NB (MC + VC)	Qualifying Period (reflects period of investment)	QB1 (5%) (contributions made on or before 30 September 2004 - subject to 5% rate of return)	QB2 (1%) (contributions made after 30 September 2004 - subject to 1% rate of return)	Total QB (QB1 + QB2)
31/12/2016	HKD50,000	HKD10,000	HKD60,000	180 months	HKD37,500	HKD7,500	HKD45,000

Example 3 illustrates how a phased withdrawal (without employment termination) from the Constituent Fund will affect the QB, NB and the qualifying period of the employee member.

Illustrative Example 3: As of 31 December 2016, member reached retirement age and claimed for phased withdrawal without employment termination. Since the member was only entitled to mandatory contributions (MC) upon a claim of phased withdrawal while he still remained employed under the current employment, HKD50,000 was paid from member's balance derived from MC. New guaranteed rate of 1% per annum will be applied to the total QB and any new contributions after the withdrawal while the qualifying period of the member will not be affected.

NB before withdrawal was HKD60,000.

NB after the phased withdrawal was HKD60,000 - HKD50,000 (MC) = HKD10,000

Total QB before withdrawal was HKD45,000.

Since total QB (HKD45,000) was less than the NB (HKD60,000) immediately before the withdrawal of HKD50,000, the total QB will be reduced by the amount withdrawn (HKD50,000).

Total QB after withdrawal	=	HKD45,000 - HKD50,000
	=	-HKD5,000 (A negative QB does not mean that the member owes Principal money, rather it simply denotes that benefit exceeding the guaranteed amount has already been paid out.)

After the claim, NB, QB and qualifying period of the member's contribution account showing the breakdown of MC and VC account balances were as follows:

Transaction Date	NB (reflects actual investments) - Mandatory Contribution	NB (reflects actual investments) - Voluntary Contribution	Total NB (MC + VC)	Qualifying Period (reflects period of investment)	QB1 (5%) (contributions made on or before 30 September 2004 - subject to 5% rate of return)	QB2 (1%) (contributions made after 30 September 2004 - subject to 1% rate of return)	Total QB (QB1 + QB2)
31/12/2016	HKD0	HKD10,000	HKD10,000	180 months	HKD0	(HKD5,000)	(HKD5,000)

Example 4

Assumptions:

1. An employee member has been investing in the Constituent Fund since 1 January 2002 and therefore the guaranteed rate of return of 5% applies to his contributions (both mandatory and voluntary) made on or before 30 September 2004 and 1% applies to any of his contributions made after 30 September 2004.

2. No redemption, switching or withdrawal has been made.

3. The employee member who had reached retirement age but (remained employed) submitted a claim of phased withdrawal at End of Year 2016. At the time of claim, the QB was smaller than NB.

Illustrations:

Transaction Date	NB (reflects actual investments) - Mandatory Contribution	NB (reflects actual investments) - Voluntary Contribution	Total NB (MC + VC)	Qualifying Period (reflects period of investment)	QB1 (5%) (contributions made on or before 30 September 2004 - subject to 5% rate of return)	QB2 (1%) (contributions made after 30 September 2004 - subject to 1% rate of return)	Total QB (QB1 + QB2)
31/12/2016	HKD45,000	HKD15,000	HKD60,000	180 months	HKD40,000	HKD10,000	HKD50,000

Example 4 illustrates how a phased withdrawal (without employment termination) from the Constituent Fund will affect the QB, NB and the qualifying period of the employee member.

Illustrative Example 4: As of 31 December 2016, member reached retirement age and claimed for phased withdrawal without employment termination. Since the member was only entitled to mandatory contributions (MC) upon a claim of phased withdrawal while he still remained employed under the current employment, HKD45,000 was paid from member's balance derived from MC. New guaranteed rate of 1% per annum will be applied to the total QB and any new contributions after the withdrawal while the qualifying period of the member will not be affected.

NB before withdrawal was HKD60,000.

NB after the phased withdrawal was HKD60,000 - HKD45,000 (MC) = HKD15,000

Total QB before withdrawal was HKD50,000.

Since total QB (HKD50,000) was less than the NB (HKD60,000) immediately before the withdrawal of HKD45,000, the total QB will be reduced by the amount withdrawn (HKD45,000).

Total QB after withdrawal = HKD50,000 - HKD45,000
= HKD5,000

After the claim, NB, QB and qualifying period of the member's contribution account showing the breakdown of MC and VC account balances were as follows:

Transaction Date	NB (reflects actual investments) - Mandatory Contribution	NB (reflects actual investments) - Voluntary Contribution	Total NB (MC + VC)	Qualifying Period (reflects period of investment)	QB1 (5%) (contributions made on or before 30 September 2004 - subject to 5% rate of return)	QB2 (1%) (contributions made after 30 September 2004 - subject to 1% rate of return)	Total QB (QB1 + QB2)
31/12/2016	HKD0	HKD15,000	HKD15,000	180 months	HKD0	HKD5,000	HKD5,000

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