

Annual Report and Audited Financial Statements

PRINCIPAL MPF - SMART PLAN

31 December 2019

PRINCIPAL MPF - SMART PLAN

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PRINCIPAL MPF - SMART PLAN

DIRECTORY OF PARTIES

Trustee and Custodian

Principal Trust Company (Asia) Limited
30/F, Millennium City 6
392 Kwun Tong Road
Kwun Tong, Kowloon
Hong Kong

Sponsor

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

Administrator

Principal Trust Company (Asia) Limited
30/F, Millennium City 6
392 Kwun Tong Road
Kwun Tong, Kowloon
Hong Kong

Investment Manager of all Constituent Funds (Other than Principal – Hang Seng Index Tracking Fund)

Principal Asset Management Company (Asia) Limited
30/F, Millennium City 6
392 Kwun Tong Road
Kwun Tong, Kowloon
Hong Kong

Investment Manager of Principal – Hang Seng Index Tracking Fund

State Street Global Advisors Asia Limited
68/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

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DIRECTORY OF PARTIES (continued)

Legal Advisor

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

PRINCIPAL MPF - SMART PLAN

MANAGER'S REPORT

Principal Age 65 Plus Fund
Principal Balanced Fund
Principal Core Accumulation Fund
Principal Growth Fund
Principal Guaranteed Fund
Principal Stable Fund

Market Review

Data remained uneven but with some signs of bottoming out. Financial conditions were at their easiest. Macroeconomic surprises remained positive in November and December 2019. US employment was strong. Our leading indicator for global industrial production edged up but continued to signal sub-trend output growth. A sustained recovery will impact Purchasing Managers' Index (PMI) positively. However, our global manufacturing PMI (provisional) remained in contractionary territory at 48.4 vs 48.8. US ISM manufacturing PMI disappointed the most at 47.2, its lowest since the global financial crisis.

Global Equities recorded broad-based gains with 38 out of 40 markets rising, led by China/EMs. Median local currency return was 2.7% which took the median year to date return to 19% vs -11% in 2018. Fixed income: 19 out of the 29 countries we track ended with higher yields. Negative yielding debt declined to US\$11.3 trillion from US\$12.3 trillion. Returns from spread products were strong but treasuries delivered modestly negative returns. For 2019, both treasuries and spread products delivered strong returns in sharp contrast to their struggles during 2018.

The portfolios are being managed in line with their strategic asset allocation targets. The equities exposure is diversified across US, Europe and Asia, while the bond portion is invested into investment grade US corporate bonds and Hong Kong bonds. The portfolios also carry some amount of short-term investments/cash for liquidity and risk purposes.

Principal Cash Fund

Principal - MPF Conservative Fund

Market Review

HK domestic political situation remain fragile as protests continued in 4Q; US passed HK Human Rights and Democracy law which added to uncertainty. Overall monetary conditions were stable; monetary base increased by HK\$18 billion to HK\$1,663 billion while aggregate balance increased by HK\$13 billion to HK\$67 billion. 3-month HIBOR finished the quarter at 2.43% (+17bps) and 1-year HIBOR at 2.43% (+8bps) as HK liquidity tightened on IPOs and seasonal factors.

HK yields were higher at the longer end and underperformed US yields. 1-year HK Government bond yield ended at 1.83% (-8 bps), 5-year at 1.74% (+53bps) and 10-year at 1.79% (+58bps). Part of HK yield curve remain inverted and curve steepened. 5-year Hong Kong Dollar Interest Rate Swaps and 10-year Hong Kong Dollar Interest Rate Swaps were up by 31 bps and 37 bps respectively to 1.97% and 2.05%. Markit's HK Bond Index returned -0.9% in 4Q19 bringing last 12 months returns to 3.8%.

Due to low interest rates, gross fund returns remain low. Our strategy of generating returns in excess of 3-month HIBOR continues to do well. FED cut rates in October and market is looking for 1 more cut in next 12 months. Both ECB and BOJ continue to pursue accommodative policies with ECB embarking on QE. US-China agreed on phase one deal but any further escalation in trade tensions may drag on sentiments and global growth. In case HK rates move lower on further FED cuts it may weigh on incremental return from reinvestments. However, with HK protests continue to take toll on the sentiments the risk of outflows from HK has risen. Any substantial outflows may push HKD rates higher on tightening liquidity.

Principal Dynamic Asian Bond Fund

Market Review

At the start of 2019, investors were nervous and confidence was fragile. But then came the dramatic pivot by the U.S. Federal Reserve to reduce interest rates by 0.75% in three stages. With the European Central Bank also easing policy, the stage was set for central banks around the world to follow suit. Bond yields tumbled, and at the peak in August, 40% of developed market government debt had a negative yield, prompting investors globally to hunt for higher yielding assets.

In the fourth quarter, most fixed income markets recorded positive returns. Risk assets rallied, with the Bloomberg Barclays Global Aggregate Bond Index and Emerging Markets USD Bond Index up +0.5% and +2.1% for the quarter respectively.

In the December FOMC meeting, as expected, the Fed left interest rates unchanged and signaled it would stay on hold through 2020, keeping it on the sidelines in an election year. We expect the macro environment to remain supportive of risk assets heading into 2020. Global growth is stabilizing and with a trade detente and accommodative monetary policy, the mini-cycle should reboot by next summer.

Principal Dynamic Asia Pacific Equity Fund

Market Review

Asia Pacific ex Japan equities advanced during the last quarter of 2019. Monetary policy easing by central banks globally and signs of negotiations between the US and China supported investor sentiment. In key developments, both countries agreed on a "phase one" trade deal that is likely to be signed in January. Against this backdrop, Chinese and Hong Kong equities advanced. Investor sentiment towards Chinese equities received further support from stimulus measures announced by the Chinese government. Taiwanese and Korean equities attracted investor interest amid advances in the information technology (IT) sector. The Korean technology sector was boosted by improved sentiment towards the memory chip market. Meanwhile, Indian and Australian equities underperformed the broader market due to concerns over weak macroeconomic data. At a sector level, IT and consumer discretionary led gains, while utilities and consumer staples lagged.

Shares in biopharmaceuticals company CSL were driven by robust demand for immunoglobulin in a highly concentrated plasma market. Global player in the obstructive sleep apnea market Fisher & Paykel Healthcare delivered strong results and upgraded its full-year guidance in recent months. Conversely, Westpac Banking weighed on performance as the Australian regulator filed a civil lawsuit against it for operational irregularities. The position was scaled down over the quarter. Shares in China's high-speed railway manufacturer Zhuzhou CRRC Times Electric declined as the company reported disappointing results on weak revenue growth and higher expenses. It is, however, expected to gain from the government's road to rail initiative.

Principal Dynamic Global Bond Fund

Market Review

Fixed income markets posted mixed returns over the quarter, with corporate bonds outperforming government bonds as credit spreads tightened. Core government bond yields rose amid easing trade tensions, as US and China agreed to an in-principle phase one trade deal. The US Federal Reserve indicated that rates will remain at current levels, given a strong labour market and resilient consumer data. That said, soft economic data in the US remains under pressure. Economic activity in the US manufacturing sector contracted for the fourth straight month in November. In the UK, government bond (Gilts) yields rose to their highest level since June, amid easing concerns over a no-deal Brexit after Prime Minister Boris Johnson's Conservatives won the national election. German bund yields also followed their counterparts higher. Emerging market bonds posted positive returns over the quarter with local currency bonds outperforming hard currency. Most emerging market currencies strengthened against the US dollar supporting local currency bond returns.

The fund generated negative returns over the quarter. Fund's duration (measure of its sensitivity to interest rate changes) position detracted from performance. Yields in core developed bond markets rose in line with US Treasury yields. As a result, the exposure to the euro and US dollar held back gains. Conversely, the fund's underweight stance in sovereign bonds of Italy contributed to performance as Italian government bond yields followed their counterparts higher. However, small allocation to corporate bonds supported performance. Exposure to communication, consumer cyclical, and consumer non-cyclical sectors contributed to returns, led by holdings in Time Warner Cable and Volkswagen.

Principal Dynamic Global Equity Fund

Market Review

Global equities performed positively in the fourth quarter and ended 2019 with strong gains. Accommodative monetary policies from major central banks continued to support equities during the period. Investor sentiment improved further in December as the US and China agreed to a "phase one" trade deal and as election results in the UK raised hopes for an orderly Brexit, which is currently scheduled for 31 January 2020. On the monetary policy front, the US Federal Reserve cut interest rates for the third time this year in October. The European Central Bank and Bank of Japan said that they would retain key interest rates at current or lower levels to achieve their inflation targets. Japan also announced a fiscal stimulus package, while China introduced measures to support growth. Against this global backdrop, all key equity markets ended higher, with strong returns from Asia Pacific and European equities.

Principal Dynamic Greater China Equity Fund

Market Review

The fund outperformed the benchmark, driven by strong stock selection. China equities rose in the fourth quarter, closing the year on a positive note. The improved sentiment was driven by the positive development in Sino-US trade discussions, weakened US dollar and supportive Chinese domestic policies and economic data. Chinese companies' third quarter earnings growth painted a mixed picture, with the consumer facing businesses reporting more stable results and the upstream and more macro sensitive industries generally disappointing.

Hong Kong equities saw a volatile but strong quarter amid concerns over the development of Sino-US trade negotiation, ongoing social unrest in Hong Kong and economic outlook for China. Market subsequently rebounded strongly in December, riding on investors' optimism in the phase one trade agreement between US and China, landslide win for the Conservative Party in the UK election and perhaps more importantly, the improvement in China macro data such as industrial production, loan growth and acceleration of retail sales for November.

In Taiwan, the TWSE index surged in 4Q19 driven by strong technology performance. For the year 2019, Taiwan was one of the best performing market in Asia. Market enjoyed a relief rally from the prospect of the US and China reaching Phase one trade agreement and FED's one more cut before the end of the year.

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MANAGER'S REPORT (continued)

Principal Dynamic Hong Kong Equity Fund
Principal - Hang Seng Index Tracking Fund

Market Review

In the fourth quarter, the Hang Seng Index was up 8.3%. The Principal Hong Kong Index, the index of the Hong Kong equity portfolio, returned 7.9% this quarter. Materials, information technology, and consumer discretionary sectors outperformed, while utilities, energy, and consumer staples sectors lagged during the quarter. Hong Kong Markit PMI increase from 38.5 in November to 42.1 in December. Export growth recover a little to -1.4% in November versus -9.2% in October, and import growth was -5.8% in November versus -11.5% in October. Official CPI was at 3.0% in November, below estimates. Retail sales growth was -23.6% in terms of value and -25.4% in November, the third consecutive month we saw a -20% decrease.

China's economics activities continued to show some positive signs in December. Official Manufacturing PMI remained at 50.2 in December, and Caixin manufacturing PMI edged down to 51.3 from 51.8 in November. Exports growth slightly edge down to -1.1% year-over-year in November from -0.9% in October, and imports growth recover from -3.5% to 2.5%. Industrial production year-to-date remained at 5.6%. Retail sales growth accelerated to 8.0% in November from 7.2% in October, above expectation.

Hong Kong SAR's trade activities remained subdued in December. In the near term, the external trading environment is likely to remain challenging. Retail sales will continue to be impacted severely due to the prolonged protests. On China side, on December 13, the United States and China announced that an agreement on Phase one trade negotiations had been reached. On the domestic front, November data points came in above expectations and reinforce our view of a cyclical bottoming-out. Overall earnings revision remained positive in December. Therefore, we turned slightly more positive on China with a focus on domestic consumption opportunities.

For and on behalf of
Principal Asset Management Company (Asia) Limited



Hong Kong
19 June 2020

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INVESTMENT REPORT

Investment portfolio

<i>Constituent Funds</i>	2019			
	<i>* Units</i>	<i>Cost HK\$</i>	<i>Fair value HK\$</i>	<i>% of net asset value</i>
Principal Age 65 Plus Fund				
– Holdings in Principal Unit Trust Umbrella Fund				
– Principal Age 65 Plus Fund	14,331,315	153,380,098	163,147,716	99.66%
Principal Balanced Fund				
– Holdings in Principal MPF Fund Series				
– Principal MPF Balanced Fund	13,888,799	1,637,548,492	2,096,653,217	100.01%
Principal Cash Fund				
– Holdings in Principal MPF Fund Series				
– Principal MPF Cash Fund	5,009,361	544,390,327	564,755,404	98.00%
Principal Core Accumulation Fund				
– Holdings in Principal Unit Trust Umbrella Fund				
– Principal Core Accumulation Fund	29,248,712	325,617,160	358,659,420	99.27%
Principal Dynamic Asian Bond Fund				
– Holdings in BMO Asia USD Investment Grade Bond				
– BMO Asia USD Investment Grade Bond	6,090,000	96,366,515	97,683,600	55.72%
– Holding in Principal Life Style Fund				
– Principal Hong Kong Bond Fund (Pension class)	6,167,541	75,716,547	75,475,292	43.06%
Principal Dynamic Asia Pacific Equity Fund				
– Holdings in Fidelity Asia Pacific Equity Fund				
– Fidelity Asia Pacific Equity Fund	42,255,911	657,780,401	747,084,509	86.16%
– Holdings in Schroder MPF Umbrella Fund				
– Schroder MPF Asian Fund	2,203,731	107,080,530	119,530,397	13.78%
Principal Dynamic Global Bond Fund				
– Holdings in FGIF World Bond				
– FGIF World Bond	22,233,897	275,261,676	289,263,004	77.68%
– Holding in Principal Unit Trust Umbrella Fund				
– Principal International Bond Fund	3,197,247	77,637,908	78,161,512	20.99%
Principal Dynamic Global Equity Fund				
– Holdings in Fidelity Global Investment Fund				
– Fidelity Global Equity Fund	84,064,265	1,559,365,984	1,878,836,338	75.30%
– Holdings in Schroder MPF Umbrella Fund				
– Schroder MPF International Fund	27,081,212	519,788,661	617,451,650	24.75%

* The value of each holding as a percentage of the total net asset value is accounted for on the trade day.

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Investment portfolio (continued)

<i>Constituent Funds (continued)</i>	2019			
	<i>* Units</i>	<i>Cost HK\$</i>	<i>Fair value HK\$</i>	<i>% of net asset value</i>
Principal Dynamic Greater China Equity Fund				
– Holdings in JPMorgan SAR Greater China Fund – Class B	4,365,481	672,189,522	828,306,438	85.31%
– Holding in Principal Life Style Fund – Principal China Equity Fund (Pension class)	6,539,543	109,426,201	133,458,359	13.74%
Principal Dynamic Hong Kong Equity Fund				
– Holdings in Principal Life Style Fund – Principal Hong Kong Equity Fund (Pension class)	21,768,790	904,467,094	968,465,198	81.12%
– Holdings in Franklin MPF Hong Kong Equity Fund – Franklin MPF Hong Kong Equity Fund	11,356,730	111,662,604	113,567,305	9.51%
– Holdings in JPMorgan SAR Hong Kong Fund – JPMorgan SAR Hong Kong Fund	1,295,598	100,496,343	111,939,698	9.38%
Principal Growth Fund				
– Holdings in Principal MPF Fund Series – Principal MPF Growth Fund	17,567,159	2,156,863,973	2,846,582,528	100.08%
**Principal Guaranteed Fund				
– Holdings in Principal Guaranteed Fund Policy	N/A	3,193,135,922	3,325,389,955	100.00%
Principal - Hang Seng Index Tracking Fund				
– Holdings in Tracker Fund of Hong Kong	17,110,870	443,719,739	486,804,252	99.40%
Principal - MPF Conservative Fund				
– Holdings in Principal MPF Fund Series – Principal MPF Conservative Fund	13,020,497	1,368,386,171	1,415,458,304	99.50%
Principal Stable Fund				
– Holdings in Principal MPF Fund Series – Principal MPF Stable Fund	12,080,461	1,350,903,268	1,569,131,138	99.89%

* The value of each holding as a percentage of the total net asset value is accounted for on the trade day.

** Market value of Principal Guaranteed Fund of HK\$3,325,389,955 is the account balance of the Principal Guaranteed Fund Policy. For details, please refer to the offering document of the Scheme, reports and financial statements of the Scheme and the Principal Guaranteed Fund.

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INVESTMENT REPORT (continued)

Statement of movements in portfolio holdings

	<i>% of net assets as at 31 December 2019</i>	<i>% of net assets as at 31 December 2018</i>
<i>Constituent Funds</i>		
Principal Age 65 Plus Fund		
– Holdings in Principal Unit Trust Umbrella Fund		
– Principal Age 65 Plus Fund	99.66%	99.73%
Principal Balanced Fund		
– Holdings in Principal MPF Fund Series		
– Principal MPF Balanced Fund	100.01%	100.06%
Principal Cash Fund		
– Holdings in Principal MPF Fund Series		
– Principal MPF Cash Fund	98.00%	99.72%
Principal Core Accumulation Fund		
– Holdings in Principal Unit Trust Umbrella Fund		
– Principal Core Accumulation Fund	99.27%	99.92%
Principal Dynamic Asian Bond Fund		
– Holdings in BMO Asia USD Investment Grade Bond		
– BMO Asia USD Investment Grade Bond	55.72%	-
– Holdings in JPMorgan SAR Asian Bond Fund		
– Class B	-	84.49%
– Holdings in Principal Life Style Fund		
– Principal Hong Kong Bond Fund (Pension class)	43.06%	15.09%
Principal Dynamic Asia Pacific Equity Fund		
– Holdings in Fidelity Asia Pacific Equity Fund		
– Fidelity Asia Pacific Equity Fund	86.16%	85.75%
– Holdings in Schroder MPF Umbrella Fund		
– Schroder MPF Asian Fund	13.78%	14.29%
Principal Dynamic Global Bond Fund		
– Holdings in FGIF World Bond		
– FGIF World Bond	77.68%	-
– Holdings in Templeton Global Bond Fund		
– Templeton Global Bond Fund	-	84.68%
– Holdings in Principal Unit Trust Umbrella Fund		
– Principal International Bond Fund	20.99%	15.01%
Principal Dynamic Global Equity Fund		
– Holdings in Fidelity Global Investment Fund		
– Fidelity Global Equity Fund	75.30%	74.54%
– Holdings in Schroder MPF Umbrella Fund		
– Schroder MPF International Fund	24.75%	25.36%

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Statement of movements in portfolio holdings (continued)

	<i>% of net assets as at 31 December 2019</i>	<i>% of net assets as at 31 December 2018</i>
<i>Constituent Funds (continued)</i>		
Principal Dynamic Greater China Equity Fund		
– Holdings in JPMorgan SAR Greater China Fund – Class B	85.31%	83.89%
– Holdings in Principal Life Style Fund – Principal China Equity Fund (Pension class)	13.74%	15.72%
Principal Dynamic Hong Kong Equity Fund		
– Holdings in Principal Life Style Fund – Principal Hong Kong Equity Fund (Pension class)	81.12%	80.88%
– Holdings in Franklin MPF Hong Kong Equity Fund – Franklin MPF Hong Kong Equity Fund	9.51%	9.81%
– Holdings in JPMorgan SAR Hong Kong Fund – JPMorgan SAR Hong Kong Fund	9.38%	-
– Holdings in Allianz Global Investors Choice Fund – Allianz Choice Hong Kong Fund	-	9.19%
Principal Growth Fund		
– Holdings in Principal MPF Fund Series – Principal MPF Growth Fund	100.08%	100.07%
Principal Guaranteed Fund		
– Holdings in Principal Guaranteed Fund Policy	100.00%	100.00%
Principal - Hang Seng Index Tracking Fund		
– Holdings in Tracker Fund of Hong Kong	99.40%	100.00%
Principal - MPF Conservative Fund		
– Holdings in Principal MPF Fund Series – Principal MPF Conservative Fund	99.50%	99.53%
Principal Stable Fund		
– Holdings in Principal MPF Fund Series – Principal MPF Stable Fund	99.89%	100.02%

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Investment income and performance

	2019														
	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal Guaranteed Fund HK\$	Principal - Hang Seng Index Tracking Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$
Investment performance															
Net gains of investments - realised	2,186,833	75,664,207	9,630,196	4,844,972	10,944,181	86,960,100	1,627,524	351,264,160	32,174,486	28,058,139	117,674,150	42,384,640	4,545,268	14,687,528	38,350,893
Net gains/(losses) of investments - unrealised	<u>10,113,367</u>	<u>209,588,726</u>	<u>3,516,320</u>	<u>40,835,153</u>	<u>(2,616,891)</u>	<u>49,352,256</u>	<u>18,693,207</u>	<u>197,074,942</u>	<u>208,676,405</u>	<u>116,370,612</u>	<u>323,592,833</u>	<u>82,538,836</u>	<u>33,803,466</u>	<u>14,593,570</u>	<u>107,734,214</u>

	2018														
	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal Guaranteed Fund HK\$	Principal - Hang Seng Index Tracking Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$
Investment performance															
Net gains/(losses) of investments - realised	259,236	111,759,168	8,591,788	2,470,923	1,243,347	52,294,597	(1,784,523)	196,662,413	62,949,655	55,603,807	202,592,485	52,302,156	9,137,246	11,988,270	50,945,161
Net gains/(losses) of investments - unrealised	<u>(1,342,521)</u>	<u>(306,662,879)</u>	<u>1,308,304</u>	<u>(16,158,532)</u>	<u>(826,340)</u>	<u>(147,205,475)</u>	<u>(942,492)</u>	<u>(434,370,740)</u>	<u>(222,385,323)</u>	<u>(223,456,556)</u>	<u>(537,632,459)</u>	<u>(95,571,092)</u>	<u>(64,839,409)</u>	<u>8,989,260</u>	<u>(115,614,360)</u>

	2017														
	#Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	#Principal Core Accumulation Fund HK\$	*Principal Dynamic Asian Bond Fund HK\$	*Principal Dynamic Asia Pacific Equity Fund HK\$	*Principal Dynamic Global Bond Fund HK\$	*Principal Dynamic Global Equity Fund HK\$	*Principal Dynamic Greater China Equity Fund HK\$	*Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal Guaranteed Fund HK\$	Principal - Hang Seng Index Tracking Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$
Investment performance															
Net gains/(losses) of investments - realised	87,218	79,287,276	7,346,728	695,471	1,621,425	70,066,084	(2,467,784)	225,419,550	80,398,511	266,538,824	135,342,017	48,130,973	4,727,197	8,756,451	35,206,738
Net gains/(losses) of investments - unrealised	<u>996,772</u>	<u>371,412,364</u>	<u>(310,725)</u>	<u>8,365,639</u>	<u>6,804,426</u>	<u>156,641,175</u>	<u>11,928,340</u>	<u>195,152,826</u>	<u>185,726,251</u>	<u>99,042,935</u>	<u>604,808,887</u>	<u>411,114,130</u>	<u>86,440,142</u>	<u>2,214,518</u>	<u>162,835,261</u>

These Constituent Funds were newly launched on 1 April 2017.

* Principal Dynamic Asia Bond Fund is formerly known as Principal - JPMorgan Asian Bond Fund

Principal Dynamic Asia Pacific Equity Fund is formerly known as Principal - Fidelity Asia Pacific Equity Fund

Principal Dynamic Global Bond Fund is formerly known as Principal - Templeton Global Bond Fund

Principal Dynamic Global Equity Fund is formerly known as Principal - Fidelity Global Equity Fund

Principal Dynamic Greater China Equity Fund is formerly known as Principal - JPMorgan Greater China Equity Fund

Principal Dynamic Hong Kong Equity Fund is formerly known as Principal - RCM Hong Kong Fund

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INVESTMENT REPORT (continued)

Investment income and performance (continued)

	2019														
	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal Guaranteed Fund HK\$	Principal - Hang Seng Index Tracking Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$
Income derived from investments															
Distribution income	-	-	-	-	-	-	-	-	-	-	-	-	15,131,249	-	-
Interest income	-	-	-	-	1	-	-	-	-	-	-	-	144	-	-
Rebate income	-	-	-	-	42,499	118,340	71,832	289,780	-	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>42,499</u>	<u>118,340</u>	<u>71,832</u>	<u>289,780</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	2018														
	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal Guaranteed Fund HK\$	Principal - Hang Seng Index Tracking Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$
Income derived from investments															
Distribution income	-	-	-	-	-	-	-	-	-	-	-	-	13,321,244	-	-
Interest income	-	-	-	-	-	-	-	-	-	-	-	-	436	-	-
Rebate income	-	-	-	-	23,421	8,036,422	3,088,127	21,821,260	146,025	119,499	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,421</u>	<u>8,036,422</u>	<u>3,088,127</u>	<u>21,821,260</u>	<u>146,025</u>	<u>119,499</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	2017														
	#Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	#Principal Core Accumulation Fund HK\$	*Principal Dynamic Asian Bond Fund HK\$	*Principal Dynamic Asia Pacific Equity Fund HK\$	*Principal Dynamic Global Bond Fund HK\$	*Principal Dynamic Global Equity Fund HK\$	*Principal Dynamic Greater China Equity Fund HK\$	*Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal Guaranteed Fund HK\$	Principal - Hang Seng Index Tracking Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$
Income derived from investments															
Dividend income	-	-	-	-	-	-	-	-	-	-	-	-	11,362,595	-	-
Interest income	-	-	-	-	-	-	-	-	-	-	-	-	52	-	-
Rebate income	-	-	-	-	1,506	3,827,053	1,440,883	11,106,875	10,162	379,446	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,506</u>	<u>3,827,053</u>	<u>1,440,883</u>	<u>11,106,875</u>	<u>10,162</u>	<u>379,446</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

These Constituent Funds were newly launched on 1 April 2017.

* Principal Dynamic Asia Bond Fund is formerly known as Principal - JPMorgan Asian Bond Fund

Principal Dynamic Asia Pacific Equity Fund is formerly known as Principal - Fidelity Asia Pacific Equity Fund

Principal Dynamic Global Bond Fund is formerly known as Principal - Templeton Global Bond Fund

Principal Dynamic Global Equity Fund is formerly known as Principal - Fidelity Global Equity Fund

Principal Dynamic Greater China Equity Fund is formerly known as Principal - JPMorgan Greater China Equity Fund

Principal Dynamic Hong Kong Equity Fund is formerly known as Principal - RCM Hong Kong Fund

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Performance table

Investment record as at 31 December 2019

	Net asset value per unit HK\$	Total net asset value HK\$
Principal Age 65 Plus Fund	11.04	163,696,265
Principal Balanced Fund	19.44	2,096,362,149
Principal Cash Fund	11.44	576,305,967
Principal Core Accumulation Fund	11.84	361,291,721
Principal Dynamic Asian Bond Fund	10.14	175,298,120
Principal Dynamic Asia Pacific Equity Fund	14.09	867,122,440
Principal Dynamic Global Bond Fund	9.75	372,392,489
Principal Dynamic Global Equity Fund	14.91	2,495,051,380
Principal Dynamic Greater China Equity Fund	19.58	970,985,299
Principal Dynamic Hong Kong Equity Fund	12.46	1,193,848,991
Principal Growth Fund	20.47	2,844,384,698
Principal Guaranteed Fund*	N/A	3,325,389,955
Principal - Hang Seng Index Tracking Fund	13.11	489,754,905
Principal - MPF Conservative Fund	11.04	1,422,514,895
Principal Stable Fund	17.06	1,570,907,902

Investment record as at 31 December 2018

	Net asset value per unit HK\$	Total net asset value HK\$
Principal Age 65 Plus Fund	10.06	99,265,358
Principal Balanced Fund	17.14	1,918,335,231
Principal Cash Fund	11.29	568,964,720
Principal Core Accumulation Fund	10.17	229,817,406
Principal Dynamic Asian Bond Fund	9.75	149,998,975
Principal Dynamic Asia Pacific Equity Fund	12.10	741,878,083
Principal Dynamic Global Bond Fund	9.27	303,960,145
Principal Dynamic Global Equity Fund	11.91	2,049,236,766
Principal Dynamic Greater China Equity Fund	14.84	707,324,988
Principal Dynamic Hong Kong Equity Fund	11.14	1,076,376,599
Principal Growth Fund	17.66	2,537,844,075
Principal Guaranteed Fund*	N/A	3,257,263,868
Principal - Hang Seng Index Tracking Fund	11.72	391,072,207
Principal - MPF Conservative Fund	10.93	1,363,235,894
Principal Stable Fund	15.76	1,474,513,899

* Please refer to the note for Principal Guaranteed Fund as shown in page 28.

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Performance table (continued)

Investment record as at 31 December 2017

	Net asset value per unit HK\$	Total net asset value HK\$
#Principal Age 65 Plus Fund	10.27	52,879,409
Principal Balanced Fund	19.18	2,218,812,779
Principal Cash Fund	11.19	498,431,358
#Principal Core Accumulation Fund	10.85	159,738,181
Principal Dynamic Asian Bond Fund (formerly known as "Principal - JPMorgan Asian Bond Fund")	9.86	124,777,907
Principal Dynamic Asia Pacific Equity Fund (formerly known as "Principal - Fidelity Asia Pacific Equity Fund")	13.76	898,299,635
Principal Dynamic Global Bond Fund (formerly known as "Principal - Templeton Global Bond Fund")	9.41	275,377,647
Principal Dynamic Global Equity Fund (formerly known as "Principal - Fidelity Global Equity Fund")	13.42	2,445,882,288
Principal Dynamic Greater China Equity Fund (formerly known as "Principal - JPMorgan Greater China Equity Fund")	18.40	845,266,553
Principal Dynamic Hong Kong Equity Fund (formerly known as "Principal - RCM Hong Kong Fund")	13.10	1,337,956,483
Principal Growth Fund	20.31	3,115,778,498
Principal Guaranteed Fund*	N/A	3,204,034,279
Principal - Hang Seng Index Tracking Fund	13.19	394,714,246
Principal - MPF Conservative Fund	10.87	1,230,916,824
Principal Stable Fund	16.70	1,569,243,094

These Constituent Funds were newly launched on 1 April 2017.

* Please refer to the note for Principal Guaranteed Fund as shown in page 28.

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Performance table (continued)

Performance record for the year ended 31 December 2019

	Fund expense ratio (%)#	Highest issue price per unit HK\$	Lowest redemption price per unit HK\$	Net annualised investment return (%)
Principal Age 65 Plus Fund	0.85%	11.06	10.07	9.74%
Principal Balanced fund	1.69%	19.46	16.94	13.42%
Principal Cash Fund	1.01%	11.44	11.29	1.33%
Principal Core Accumulation Fund	0.84%	11.85	10.09	16.42%
Principal Dynamic Asian Bond Fund	1.39%	10.27	9.77	4.00%
Principal Dynamic Asia Pacific Equity Fund	1.73%	14.16	11.85	16.45%
Principal Dynamic Global Bond Fund	1.49%	9.95	9.27	5.18%
Principal Dynamic Global Equity Fund	1.73%	14.95	11.70	25.19%
Principal Dynamic Greater China Equity Fund	1.42%	19.67	14.25	31.94%
Principal Dynamic Hong Kong Equity Fund	1.63%	13.09	10.79	11.85%
Principal Growth Fund	1.69%	20.50	17.36	15.91%
Principal Guaranteed Fund**	1.84%	N/A	N/A	1.00%
Principal - Hang Seng Index Tracking Fund	1.02%	13.66	11.36	11.86%
Principal - MPF Conservative Fund	1.03%	11.04	10.92	1.01%
Principal Stable Fund	1.66%	17.07	15.71	8.25%

Except for Principal Guaranteed Fund, the net annualised investment return represents the percentage change in unit price* for the year covered in this report. It is for indicative purposes only and is not necessarily a guide to future performance.

The net annualised investment return of Principal Guaranteed Fund Policy for a particular period is the average declared return of the Fund for that period. The declared return was 4% per annum for the period from 12 December 2006 to 30 September 2013, 3% per annum for the period from 1 October 2013 to 31 December 2015 and 1% per annum for the year ended 31 December 2016, 2017, 2018 and 2019.

* Percentage change: (unit price at the end of the year - unit price at the beginning of the year)/ unit price at the beginning of the year OR (unit price at the last pricing date - unit price at the beginning of the year)/ unit price at the beginning of the year (for terminated Constituent Fund/ fully redeemed class during the year) OR (unit price at the end of the year - unit price at the date of inception)/ unit price at the date of inception (for newly launched Constituent Fund/ class)

** Please refer to the note for Principal Guaranteed Fund as shown in page 28.

The fee and charges of an investment in a listed REIT are not regarded as the underlying fund costs as defined under E3.9 of the Disclosure Code of an APIF for the purposes of calculating FER.

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Performance table (continued)

Performance record for the year ended 31 December 2018

	Fund expense ratio (%)	Highest issue price per unit HK\$	Lowest redemption price per unit HK\$	Net annualised investment return (%)
Principal Age 65 Plus Fund	0.92%	10.37	9.96	(2.04)%
Principal Balanced fund	1.68%	20.36	16.86	(10.64)%
Principal Cash Fund	1.01%	11.29	11.19	0.89%
Principal Core Accumulation Fund	0.91%	11.32	9.92	(6.27)%
Principal Dynamic Asian Bond Fund	1.45%	9.95	9.45	(1.12)%
Principal Dynamic Asia Pacific Equity Fund	1.84%	14.79	11.64	(12.06)%
Principal Dynamic Global Bond Fund	1.58%	9.53	9.10	(1.49)%
Principal Dynamic Global Equity Fund	1.81%	14.34	11.42	(11.25)%
Principal Dynamic Greater China Equity Fund	1.48%	20.29	14.33	(19.35)%
Principal Dynamic Hong Kong Equity Fund	1.66%	14.51	10.60	(14.96)%
Principal Growth Fund	1.69%	21.87	17.30	(13.05)%
Principal Guaranteed Fund**	1.86%	N/A	N/A	1.00%
Principal - Hang Seng Index Tracking Fund	1.06%	14.62	11.21	(11.14)%
Principal - MPF Conservative Fund	1.13%	10.92	9.96	0.55%
Principal Stable Fund	1.67%	17.18	15.63	(5.63)%

Except for Principal Guaranteed Fund, the net annualised investment return represents the percentage change in unit price* for the year covered in this report. It is for indicative purposes only and is not necessarily a guide to future performance.

The net annualised investment return of Principal Guaranteed Fund Policy for a particular period is the average declared return of the Fund for that period. The declared return was 4% per annum for the period from 12 December 2006 to 30 September 2013, 3% per annum for the period from 1 October 2013 to 31 December 2015 and 1% per annum for the year ended 31 December 2016, 2017, 2018 and 2019.

* Percentage change: (unit price at the end of the year - unit price at the beginning of the year)/ unit price at the beginning of the year OR (unit price at the last pricing date - unit price at the beginning of the year)/ unit price at the beginning of the year (for terminated Constituent Fund/ fully redeemed class during the year) OR (unit price at the end of the year - unit price at the date of inception)/ unit price at the date of inception (for newly launched Constituent Fund/ class)

** Please refer to the note for Principal Guaranteed Fund as shown in page 28.

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Performance table (continued)

Performance record for the year ended 31 December 2017

	Highest issue price per unit HK\$	Lowest redemption price per unit HK\$	Net annualised investment return (%)
#Principal Age 65 Plus Fund	10.29	9.98	2.70%
Principal Balanced fund	19.18	15.60	23.03%
Principal Cash Fund	11.20	11.14	0.45%
#Principal Core Accumulation Fund	10.86	9.99	8.50%
Principal Dynamic Asian Bond Fund (formerly known as "Principal - JPMorgan Asian Bond Fund")	9.90	9.22	6.83%
Principal Dynamic Asia Pacific Equity Fund (formerly known as "Principal - Fidelity Asia Pacific Equity Fund")	13.76	10.33	33.46%
Principal Dynamic Global Bond Fund (formerly known as "Principal - Templeton Global Bond Fund")	9.57	9.09	3.18%
Principal Dynamic Global Equity Fund (formerly known as "Principal - Fidelity Global Equity Fund")	13.44	11.28	19.29%
Principal Dynamic Greater China Equity Fund (formerly known as "Principal - JPMorgan Greater China Equity Fund")	18.71	12.53	47.20%
Principal Dynamic Hong Kong Equity Fund (formerly known as "Principal - RCM Hong Kong Fund")	13.21	9.82	34.22%
Principal Growth Fund	20.31	15.85	28.38%
Principal Guaranteed Fund**	N/A	N/A	1.00%
Principal - Hang Seng Index Tracking Fund	13.28	9.60	38.55%
Principal - MPF Conservative Fund	10.87	10.87	0.00%
Principal Stable Fund	16.70	14.81	12.53%

Except for Principal Guaranteed Fund, the net annualised investment return represents the percentage change in unit price* for the year covered in this report. It is for indicative purposes only and is not necessarily a guide to future performance.

The net annualised investment return of Principal Guaranteed Fund Policy for a particular period is the average declared return of the Fund for that period. The declared return was 4% per annum for the period from 12 December 2006 to 30 September 2013, 3% per annum for the period from 1 October 2013 to 31 December 2015 and 1% per annum for the year ended 31 December 2016, 2017, 2018 and 2019.

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(unit price at the last pricing date - unit price at the beginning of the year)/ unit price at the beginning of the year
(for terminated Constituent Fund/ fully redeemed class during the year) OR
(unit price at the end of the year - unit price at the date of inception)/ unit price at the date of inception
(for newly launched Constituent Fund/ class)

** Please refer to the note for Principal Guaranteed Fund as shown in page 28.

These Constituent Funds were newly launched on 1 April 2017.

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Performance table (continued)

Performance record for the year ended 31 December 2016

	Highest issue price per unit HK\$	Lowest redemption price per unit HK\$	Net annualised investment return (%)
Principal Balanced fund	16.28	13.91	1.63%
Principal - MPF Conservative Fund	10.87	10.87	0.00%
Principal Cash Fund	11.17	11.11	(0.09)%
Principal Growth Fund	16.49	13.63	1.93%
Principal Guaranteed Fund**	N/A	N/A	1.00%
Principal Stable Fund	15.56	14.22	0.75%
Principal - Fidelity Global Equity Fund	11.39	9.76	1.99%
Principal - Fidelity Asia Pacific Equity Fund	11.13	8.68	4.67%
Principal - Templeton Global Bond Fund	9.53	9.10	(3.18)%
Principal - RCM Hong Kong Fund	10.54	8.10	0.31%
Principal - JPMorgan Asian Bond Fund	9.94	9.18	(0.97)%
Principal - JPMorgan Greater China Equity Fund	13.88	10.27	1.63%
Principal - Hang Seng Index Tracking Fund	10.44	7.76	2.81%

Except for Principal Guaranteed Fund, the net annualised investment return represents the percentage change in unit price* for the year covered in this report. It is for indicative purposes only and is not necessarily a guide to future performance.

The net annualised investment return of Principal Guaranteed Fund Policy for a particular period is the average declared return of the Fund for that period. The declared return was 4% per annum for the period from 12 December 2006 to 30 September 2013, 3% per annum for the period from 1 October 2013 to 31 December 2015 and 1% per annum for the year ended 31 December 2016, 2017, 2018 and 2019.

* Percentage change: (unit price at the end of the year - unit price at the beginning of the year)/ unit price at the beginning of the year OR (unit price at the last pricing date - unit price at the beginning of the year)/ unit price at the beginning of the year (for terminated Constituent Fund/ fully redeemed class during the year) OR (unit price at the end of the year - unit price at the date of inception)/ unit price at the date of inception (for newly launched Constituent Fund/ class)

** Please refer to the note for Principal Guaranteed Fund as shown in page 28.

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Performance table (continued)

Performance record for the year ended 31 December 2015

	Highest issue price per unit HK\$	Lowest redemption price per unit HK\$	Net annualised investment return (%)
Principal Balanced fund (formerly known as "AXA Balanced Fund")	18.06	14.64	(5.72)%
Principal - MPF Conservative Fund (formerly known as "AXA MPF Conservative Fund")	10.87	10.87	0.00%
Principal Cash Fund (formerly known as "AXA Cash Fund")	11.17	11.13	0.18%
Principal Growth Fund (formerly known as "AXA Growth Fund")	18.53	14.60	(5.37)%
Principal Guaranteed Fund** (formerly known as "AXA Guaranteed Fund")	N/A	N/A	3.00%
Principal Stable Fund (formerly known as "AXA Stable Fund")	16.45	14.50	(5.58)%
Principal - Fidelity Global Equity Fund (formerly known as "AXA – Fidelity Global Equity Fund")	11.98	10.30	(1.08)%
Principal - Fidelity Asia Pacific Equity Fund (formerly known as "AXA – Fidelity Asia Pacific Equity Fund")	11.94	9.07	(6.90)%
Principal - Templeton Global Bond Fund (formerly known as "AXA – Templeton Global Bond Fund")	10.09	9.38	(6.55)%
Principal - RCM Hong Kong Fund (formerly known as "AXA – RCM Hong Kong Fund")	12.84	9.10	(6.53)%
Principal - JPMorgan Asian Bond Fund (formerly known as "AXA – JPMorgan Asian Bond Fund")	9.81	9.14	(3.32)%
Principal - JPMorgan Greater China Equity Fund (formerly known as "AXA – JPMorgan Greater China Equity Fund")	15.83	11.45	(6.53)%
Principal - Hang Seng Index Tracking Fund (formerly known as "AXA – Hang Seng Index Tracking Fund")	11.68	8.72	(6.38)%

Except for Principal Guaranteed Fund, the net annualised investment return represents the percentage change in unit price* for the year covered in this report. It is for indicative purposes only and is not necessarily a guide to future performance.

The net annualised investment return of Principal Guaranteed Fund Policy for a particular period is the average declared return of the Fund for that period. The declared return was 4% per annum for the period from 12 December 2006 to 30 September 2013, 3% per annum for the period from 1 October 2013 to 31 December 2015 and 1% per annum for the year ended 31 December 2016, 2017, 2018 and 2019.

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** Please refer to the note for Principal Guaranteed Fund as shown in page 28.

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Performance table (continued)

Performance record for the year ended 31 December 2014

	Highest issue price per unit HK\$	Lowest redemption price per unit HK\$	Net annualised investment return (%)
AXA Balanced fund	16.92	15.47	-
AXA - MPF Conservative Fund	10.87	10.87	0.09%
AXA Cash Fund	11.14	11.07	0.45%
AXA Growth Fund	17.12	15.27	0.37%
AXA Guaranteed Fund**	N/A	N/A	3.00%
AXA Stable Fund	16.17	15.44	(0.89)%
AXA - Fidelity Global Equity Fund	11.40	10.17	4.01%
AXA - Fidelity Asia Pacific Equity Fund	11.41	9.56	3.62%
AXA - Templeton Global Bond Fund	10.55	10.07	(2.42)%
AXA - Templeton Japan Equity Fund	-	-	-
AXA - RCM Hong Kong Fund	10.70	9.01	4.52%
AXA - JPMorgan Asian Bond Fund	9.88	9.43	1.80%
AXA - JPMorgan Greater China Equity Fund	13.60	11.38	5.45%
#AXA - Hang Seng Index Tracking Fund	10.08	9.53	(1.20)%

Except for Principal Guaranteed Fund, the net annualised investment return represents the percentage change in unit price* for the year covered in this report. It is for indicative purposes only and is not necessarily a guide to future performance.

The net annualised investment return of Principal Guaranteed Fund Policy for a particular period is the average declared return of the Fund for that period. The declared return was 4% per annum for the period from 12 December 2006 to 30 September 2013, 3% per annum for the period from 1 October 2013 to 31 December 2015 and 1% per annum for the year ended 31 December 2016, 2017, 2018 and 2019.

* Percentage change: (unit price at the end of the year - unit price at the beginning of the year)/ unit price at the beginning of the year OR
(unit price at the last pricing date - unit price at the beginning of the year)/ unit price at the beginning of the year
(for terminated Constituent Fund/ fully redeemed class during the year) OR
(unit price at the end of the year - unit price at the date of inception)/ unit price at the date of inception
(for newly launched Constituent Fund/ class)

This constituent Fund was newly launched on 3 November 2014.

** Please refer to the note for Principal Guaranteed Fund as shown in page 28.

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Performance table (continued)

Performance record for the year ended 31 December 2013

	Highest issue price per unit HK\$	Lowest redemption price per unit HK\$	Net annualised investment return (%)
AXA Balanced fund	16.27	14.37	9.49%
AXA - MPF Conservative Fund	10.87	10.86	0.09%
AXA Cash Fund	11.13	11.04	(0.36)%
AXA Growth Fund	16.34	13.98	13.08%
AXA Guaranteed Fund**	N/A	N/A	3.75%
AXA Stable Fund	15.82	14.85	1.22%
AXA - Fidelity Global Equity Fund	10.72	8.79	24.36%
AXA - Fidelity Asia Pacific Equity Fund	10.47	8.99	3.44%
AXA - Templeton Global Bond Fund	10.61	10.09	(1.53)%
AXA - Templeton Japan Equity Fund	10.74	8.36	-
AXA - RCM Hong Kong Fund	10.13	8.32	4.95%
AXA - JPMorgan Asian Bond Fund	10.15	9.30	(6.06)%
AXA - JPMorgan Greater China Equity Fund	12.63	10.29	11.53%

Except for Principal Guaranteed Fund, the net annualised investment return represents the percentage change in unit price* for the year covered in this report. It is for indicative purposes only and is not necessarily a guide to future performance.

The net annualised investment return of Principal Guaranteed Fund Policy for a particular period is the average declared return of the Fund for that period. The declared return was 4% per annum for the period from 12 December 2006 to 30 September 2013, 3% per annum for the period from 1 October 2013 to 31 December 2015 and 1% per annum for the year ended 31 December 2016, 2017, 2018 and 2019.

* Percentage change: (unit price at the end of the year - unit price at the beginning of the year)/ unit price at the beginning of the year OR
(unit price at the last pricing date - unit price at the beginning of the year)/ unit price at the beginning of the year
(for terminated Constituent Fund/ fully redeemed class during the year) OR
(unit price at the end of the year - unit price at the date of inception)/ unit price at the date of inception
(for newly launched Constituent Fund/ class)

** Please refer to the note for Principal Guaranteed Fund as shown in page 28.

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Performance table (continued)

Performance record for the year ended 31 December 2012

	Highest issue price per unit HK\$	Lowest redemption price per unit HK\$	Net annualised investment return (%)
AXA Balanced fund	14.92	13.11	12.32%
AXA - MPF Conservative Fund	10.86	10.86	-
AXA Cash Fund	11.12	11.06	0.45%
AXA Growth Fund	14.51	12.30	15.60%
AXA Guaranteed Fund**	N/A	N/A	4.00%
AXA Stable Fund	15.61	14.75	5.07%
AXA - Fidelity Global Equity Fund	8.70	7.35	16.17%
AXA - Fidelity Asia Pacific Equity Fund	9.89	8.06	20.22%
AXA - Templeton Global Bond Fund	10.49	9.77	7.59%
AXA - Templeton Japan Equity Fund	8.64	7.32	7.90%
AXA - RCM Hong Kong Fund	9.49	7.69	21.67%
AXA - JPMorgan Asian Bond Fund	10.10	9.98	0.70%
AXA - JPMorgan Greater China Equity Fund	11.22	9.98	11.90%

Except for Principal Guaranteed Fund, the net annualised investment return represents the percentage change in unit price* for the year covered in this report. It is for indicative purposes only and is not necessarily a guide to future performance.

The net annualised investment return of Principal Guaranteed Fund Policy for a particular period is the average declared return of the Fund for that period. The declared return was 4% per annum for the period from 12 December 2006 to 30 September 2013, 3% per annum for the period from 1 October 2013 to 31 December 2015 and 1% per annum for the year ended 31 December 2016, 2017, 2018 and 2019.

* Percentage change: (unit price at the end of the year - unit price at the beginning of the year)/ unit price at the beginning of the year OR
(unit price at the last pricing date - unit price at the beginning of the year)/ unit price at the beginning of the year
(for terminated Constituent Fund/ fully redeemed class during the year) OR
(unit price at the end of the year - unit price at the date of inception)/ unit price at the date of inception
(for newly launched Constituent Fund/ class)

** Please refer to the note for Principal Guaranteed Fund as shown in page 28.

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Performance table (continued)

Performance record for the year ended 31 December 2011

	Highest issue price per unit HK\$	Lowest redemption price per unit HK\$	Net annualised investment return (%)
AXA Balanced fund (formerly known as "Double Easy Balanced Fund")	15.58	12.46	(11.21)%
AXA - MPF Conservative Fund (formerly known as "Double Easy MPF Conservative Fund")	10.86	10.86	-
AXA Cash Fund (formerly known as "Double Easy Cash Fund")	11.12	11.07	(0.54)%
AXA Growth Fund (formerly known as "Double Easy Growth Fund")	15.26	11.46	(14.03)%
AXA Guaranteed Fund** (formerly known as "Double Easy Guaranteed Fund")	N/A	N/A	4.00%
AXA Stable Fund (formerly known as "Double Easy Stable Fund")	15.86	14.47	(3.65)%
AXA - Fidelity Global Equity Fund (formerly known as "Double easy Top Select Fund")	8.94	6.70	(10.92)%
AXA - Fidelity Asia Pacific Equity Fund	10.37	7.41	(17.90)%
AXA - Templeton Global Bond Fund	10.31	9.64	(2.50)%
AXA - Templeton Japan Equity Fund	10.31	7.52	(22.80)%
AXA - RCM Hong Kong Fund	10.00	6.68	(22.00)%

Performance record for the year ended 31 December 2010

	Highest issue price per unit HK\$	Lowest redemption price per unit HK\$	Net annualised investment return (%)
Double Easy Top Select Fund	8.34	6.79	10.19%
Double Easy Balanced Fund	15.28	12.57	8.84%
Double Easy MPF Conservative Fund	10.86	10.86	(0.09)%
Double Easy Cash Fund	11.17	11.12	(0.18)%
Double Easy Growth Fund	14.85	11.82	10.32%
Double Easy Guaranteed Fund**	N/A	N/A	4.00%
Double Easy Stable Fund	15.83	13.94	5.14%

Except for Principal Guaranteed Fund, the net annualised investment return represents the percentage change in unit price* for the year covered in this report. It is for indicative purposes only and is not necessarily a guide to future performance.

The net annualised investment return of Principal Guaranteed Fund Policy for a particular period is the average declared return of the Fund for that period. The declared return was 4% per annum for the period from 12 December 2006 to 30 September 2013, 3% per annum for the period from 1 October 2013 to 31 December 2015 and 1% per annum for the year ended 31 December 2016, 2017, 2018 and 2019.

* Percentage change: (unit price at the end of the year - unit price at the beginning of the year)/ unit price at the beginning of the year OR (unit price at the last pricing date - unit price at the beginning of the year)/ unit price at the beginning of the year (for terminated Constituent Fund/ fully redeemed class during the year) OR (unit price at the end of the year - unit price at the date of inception)/ unit price at the date of inception (for newly launched Constituent Fund/ class)

** Please refer to the note for Principal Guaranteed Fund as shown in page 28.

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Performance table (continued)

Note for Principal Guaranteed Fund

Principal Guaranteed Fund is a non-unitised constituent fund and the APIF in which the Principal Guaranteed Fund invests is also a non-unitised insurance policy. The rate of return of the APIF in which the Principal Guaranteed Fund invests is determined by Principal Insurance Company (Hong Kong) Limited ("Sponsor") at its absolute discretion through a declared crediting rate and is independent of the value of assets held in respect of the APIF.

The account balance of the APIF is the amount in Hong Kong dollars invested in the APIF (net of Contribution charges and Offer spread, if any, as set out in the Fee Table) for members accrued with the declared crediting rate as determined by the Sponsor.

The APIF in which the Principal Guaranteed Fund invests offers a guarantee given by the Sponsor on amounts invested in the APIF (net of Contribution charges and Offer spread, if any). The Sponsor guarantees, through the APIF, that the amount payable under the APIF for the member shall be the account balance of that member in the APIF in the following events:

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

In the following events, the Sponsor guarantees, through the APIF, that the amount payable under the APIF for the member shall be the greater of the amount in Hong Kong dollars invested in the APIF (net of Contribution charges and Offer spread, if any) for that member and the account balance of that member in the APIF after applying a reduction, if any, as explained below:

- termination of the APIF by the Sponsor;
- termination of employment of the member with or without payment of severance payment or long service payment out of accrued benefits derived from the employer's voluntary or mandatory contributions; or
- circumstances set out in the MPF Ordinance and Regulation in which accrued benefits derived from mandatory contributions are payable in respect of the member's permanent departure from Hong Kong or a small balance account; or
- intra-group employment transfer which results in the transfer of the member to another provident fund scheme.

No guarantee shall be applied in other events and the amount payable under the APIF for the member shall be the account balance (or the relevant part of the account balance) of that member in the APIF after applying a reduction, if any, as explained below in the events such as:

- a member switches all or part of the amount invested in the fund to another constituent fund;
- a member elects to have amount held for his account under the Scheme transferred to other provident fund scheme; or
- the employer terminates its participation in the Scheme.

Upon realisation of investments in the APIF, the Sponsor may reduce the proceeds of realisation of such investments by an amount at its absolute discretion having regard to various factors including market conditions, the level of guarantee being provided and market value of the underlying assets. The reduction will not exceed 5% (or such higher percentage as decided by the Sponsor with the approval of the Mandatory Provident Fund Schemes Authority) of the account balance (or the relevant part of the account balance) of the member in the APIF.

For details, please refer to the offering document of the Scheme.

PRINCIPAL MPF – SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies

Principal Age 65 Plus Fund

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

Principal Balanced Fund

Principal Balanced Fund currently invests in the Principal MPF Fund – Principal Balanced Fund, a unit trust APIF. The constituent fund, via the underlying unit trust APIF, gains exposure to a diversified portfolio of equities, bonds and deposit. Normally around 55% to 85% of the assets will be invested in global equities and around 10% to 40% in global bonds. The remaining assets will be invested in deposits as appropriate.

Principal Cash Fund

Principal Cash Fund currently invests in the Principal MPF Fund – Principal Cash Fund, a unit trust APIF. The constituent fund, via the underlying unit trust APIF will invest in a wide range of transferable securities including certificated of deposit, floating rate notes and commercial papers, with a diversified spread of high quality financial institutions, sovereign issuers and corporate issuers.

Principal Core Accumulation Fund

The investment objective of Principal Core Accumulation Fund is to provide capital growth to members by investing in a globally diversified manner. The constituent fund targets to hold 60% of its underlying assets in Higher Risk Assets (such as global equities), with the remainder investing in Lower Risk Assets (such as global bonds and money market instrument). The asset allocation of Higher Risk Assets may vary between 55% and 65% due to differing price movements of various equity and bond markets.

Principal Dynamic Asian Bond Fund

Principal Dynamic Asian Bond Fund will invest in two or more APIFs and/or ITCISs managed by different managers, which in turn, follow the proposed asset allocation of 70-100% assets in bonds within the Asia-Pacific region (excluding Japan), including but not limited to Australia, Hong Kong, Korea, Malaysia, New Zealand, Singapore and Thailand and 0-30% assets in bonds outside the Asia-Pacific region (excluding Japan) including but not limited to US dollar denominated bonds such as US treasury inflation-protected securities and treasury bonds for defensive purpose during periods of perceived uncertainty and volatility in Asian Bond Market. Neither the constituent fund nor the underlying APIFs and/or ITCISs will enter into any securities lending agreement, repurchase agreement or enter into any financial futures contracts or financial options contracts.

Principal Dynamic Asia Pacific Equity Fund

Principal Dynamic Asia Pacific Equities Fund will invest in two or more APIFs and/or ITCISs managed by different managers, which in turn, invest directly into the Asia Pacific equity markets and have the flexibility to invest in the money market in a limited manner. Normally, around 95% of the assets will be invested in equities and around 5% in cash or cash equivalent. The actual portfolio will at times vary considerably from the above as market, political, structural, economic and other conditions change. Neither the constituent fund nor the underlying APIFs and/or ITCISs will enter into any securities lending agreement, repurchase agreement or enter into any financial futures contracts or financial options contracts.

PRINCIPAL MPF – SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Principal Dynamic Global Bond Fund

Principal Dynamic Global Bond Fund will invest in two or more APIFs and/or ITCISs managed by different managers so that at least 70% of the assets of the constituent fund are invested in fixed income securities issued by governments, governmental agencies and corporates globally. Investment assets include debt obligations (bonds), preferred stocks, corporate debt obligations and convertible securities. Neither the constituent fund nor the underlying APIFs and/or ITCISs will enter into any securities lending agreement, repurchase agreement or enter into any financial futures contracts or financial options contracts.

Principal Dynamic Global Equity Fund

Principal Dynamic Global Equity Fund will invest in two or more APIFs and/or ITCISs managed by different managers, which in turn, invest in a diversified portfolio of global equities and have the flexibility to invest in fixed income securities and money market in a limited manner. Normally, around 98% of the assets will be invested in equities and around 2% in cash or cash equivalent. The actual portfolio will at times vary considerably from the above as market, political, structural, economic and other conditions change. Neither the constituent fund nor the underlying APIFs and/or ITCISs will enter into any securities lending agreement, repurchase agreement or enter into any financial futures contracts or financial options contracts.

Principal Dynamic Greater China Equity Fund

Principal Dynamic Greater China Equity Fund will invest in two or more APIFs and/or ITCISs managed by different managers, which in turn, follow the proposed asset allocation of 70-100% assets in Greater China equities, 0-30% assets in other equities and 0-30% assets in bonds. Neither the constituent fund nor the underlying APIFs and/or ITCISs will enter into any securities lending agreement, repurchase agreement or enter into any financial futures contracts or financial options contracts.

Principal Dynamic Hong Kong Equity Fund

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

Principal Growth Fund

Principal Growth Fund currently invests in the Principal MPF Fund – Principal Growth Fund, a unit trust APIF. The constituent fund, via the underlying unit trust APIF, gains exposure to a diversified portfolio of equities, bonds and deposits, with heavier weighting in equities. Normally around 75% to 100% of the assets will be invested in global equities and up to 25% global bonds. The remaining assets will be invested in deposits as appropriate.

PRINCIPAL MPF – SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Principal Guaranteed Fund

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

Principal - Hang Seng Index Tracking Fund

Principal – Hang Seng Index Tracking Fund invests solely in an Approved Index-Tracking Fund named the Tracker Fund of Hong Kong ("TraHK"). The fund pursues its investment objective by investing solely in a single Approved Index-Tracking Fund, TraHK. The constituent fund, via the underlying Approved Index-Tracking Fund, invests all, or substantially all, of its assets in the shares of constituent companies of the Hang Seng Index in substantially the same weightings as they appear in the Hang Seng Index. The constituent fund will, through TraHK, maintain an effective currency exposure to Hong Kong dollars of not less than 30% of the net asset value of the constituent fund. The constituent fund may hold cash or bank deposits for ancillary purposes, such as for meeting redemption request. The TraHK is permitted to enter into futures contracts and options for hedging purposes or to achieve the investment objective. The value of TraHK's investments in options (in terms of the total amount of premium paid) and the value of TraHK's investments in futures contracts (in terms of the total net aggregate value of outstanding contract prices payable by or to TraHK) will not in the aggregate exceed 10% of TraHK's net asset value. TraHK may only enter into futures contracts which are traded on the Hong Kong Futures Exchange Limited. TraHK cannot engage in stock lending. The performance of the TraHK, net asset value of the TraHK, the performance by the investment manager and the trustee of the TraHK of their respective obligations are not guaranteed by the HKSAR Government. The HKSAR Government has given no guarantee or assurance that the investment objective of the TraHK will be met.

Principal – MPF Conservative Fund

Principal MPF Conservative Fund currently invests in the Principal MPF Fund – Principal Conservative Fund, a unit trust APIF. The constituent fund, via the underlying unit trust APIF may invest in Hong Kong dollar denominated deposits and debt securities issued by financial institutions, sovereign issuers and corporate issuers, subject to restrictions applicable to MPF conservative funds imposed by the MPF Ordinance, Regulation, relevant codes and guidelines.

Principal Stable Fund

Principal Stable Fund currently invests in the Principal MPF Fund – Principal Stable Fund, a unit trust APIF. The constituent fund, via the underlying unit trust APIF, gains exposure to a diversified portfolio of equities, bonds and deposits. Normally around 15% to 45% of the assets will be invested in global equities and around 45% to 75% in global bonds. The remaining assets will be invested in deposits as appropriate.

PRINCIPAL MPF – SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Commentary by the Trustee

During this financial year, all the investments made by each of the funds were in accordance with the respective fund's investment policies and the requirements under the Mandatory Provident Fund Schemes Ordinance and the Securities and Futures Ordinance. For detailed information of each fund's performance and particulars of investments, please refer to the details in this report.

Principal Age 65 Plus Fund

Launch Date: 1 April 2017

Reference Benchmark: MPF DIS Reference Portfolio - Age 65 Plus Fund

	1 year (%)	5 year ann. (%)	10 year ann. (%)	Since Launch ann. (%)
Fund Performance*	9.74	N/A	N/A	3.67
Benchmark/Performance Target#	9.63	N/A	N/A	7.17
Deviation	0.11	N/A	N/A	-3.50

The fund was launched in April 2017 to provide capital growth to members by investing in a globally diversified manner.

The fund outperformed its market benchmark in 2019. Although it is structured to invest substantially into index funds currently, some exposure in active funds were added and this had a positive impact. The active bond portions outperformed during the past year, providing the main driver for the fund to record a positive excess return.

PRINCIPAL MPF – SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Commentary by the Trustee (continued)

Principal Balanced Fund

Launch Date: 1 December 2000

Reference Benchmark: Willis Towers Watson Composite Benchmark (>60% - 80% Equity)

	1 year (%)	5 year ann. (%)	10 year ann. (%)	Since Launch ann. (%)
Fund Performance*	13.42	3.62	3.56	3.54
Benchmark/Performance Target#	15.73	6.04	5.95	N/A
Deviation	-2.31	-2.42	-2.39	N/A

The fund utilizes both top-down (asset allocation) and bottom-up (stock selection) investing strategies. In 2019, asset allocation was positive due to successful allocations between underlying portfolios. Bond portfolios added value on issuer and term structure level. Although the underlying bond investments posed good performance against its benchmark, the overall fund lagged the market benchmark as stock selection from underlying equity portions underperformed.

PRINCIPAL MPF – SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Commentary by the Trustee (continued)

Principal Cash Fund

Launch Date: 1 December 2000

Reference Benchmark: MPF Prescribed Savings Rate

	1 year (%)	5 year ann. (%)	10 year ann. (%)	Since Launch ann. (%)
Fund Performance*	1.33	0.55	0.27	0.71
Benchmark/Performance Target#	0.11	0.03	0.02	0.45
Deviation	1.22	0.52	0.25	0.26

The fund aims to provide a higher return than retail Hong Kong dollar savings deposit rate in Hong Kong, achieving this objective in 2019.

PRINCIPAL MPF – SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Commentary by the Trustee (continued)

Principal Core Accumulation Fund

Launch Date: 1 April 2017

Reference Benchmark: MPF DIS Reference Portfolio - Core Accumulation Fund

	1 year (%)	5 year ann. (%)	10 year ann. (%)	Since Launch ann. (%)
Fund Performance*	16.42	N/A	N/A	6.34
Benchmark/Performance Target#	17.03	N/A	N/A	4.18
Deviation	-0.61	N/A	N/A	2.16

The fund was launched in April 2017 to provide capital growth to members by investing in a globally diversified manner.

The fund slightly lagged its market benchmark in 2019. Although it is structured to invest substantially into index funds currently, some exposure in active funds were added. However, the active equity portions detracted from the performance, driven by the underperformance of global small cap comparing to large cap.

PRINCIPAL MPF – SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Commentary by the Trustee (continued)

Principal Dynamic Asian Bond Fund

Launch Date: 13 August 2012

Reference Benchmark: Markit iBoxx ABF Pan-Asia Index

	1 year (%)	5 year ann. (%)	10 year ann. (%)	Since Launch ann. (%)
Fund Performance*	4.00	1.04	N/A	0.19
Benchmark/Performance Target#	8.07	3.19	N/A	2.53
Deviation	-4.07	-2.15	N/A	-2.34

Asian bonds gained momentum and rebounded after the market sell-off in 2018, providing positive contributions. The performance deviation was due to the overweight to Hong Kong bonds.

Principal Asset Management Company (Asia) Limited takes continuous effort in reviewing the underlying managers and making appropriate adjustment to the strategic underlying fund allocation to enhance the risk-adjusted performance.

PRINCIPAL MPF – SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Commentary by the Trustee (continued)

Principal Dynamic Asia Pacific Equity Fund

Launch Date: 10 January 2011

Reference Benchmark: FTSE MPF Asia Pacific ex Japan ex HK (35% HKD hedged)

	1 year (%)	5 year ann. (%)	10 year ann. (%)	Since Launch ann. (%)
Fund Performance*	16.45	5.90	N/A	3.89
Benchmark/Performance Target#	17.60	6.07	N/A	4.37
Deviation	-1.15	-0.17	N/A	-0.48

Gross return of the fund outperformed its benchmark in 2019. Australia and New Zealand were one of the best performing regions over the past year. Sector allocation dragged down the performance with consumer services as the largest detractor. In terms of stock selection, technology and health care were the main drivers and added value to the portfolio.

Principal Asset Management Company (Asia) Limited takes continuous effort in reviewing the underlying managers and making appropriate adjustment to the strategic underlying fund allocation to enhance the risk-adjusted performance.

PRINCIPAL MPF – SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Commentary by the Trustee (continued)

Principal Dynamic Global Bond Fund

Launch Date: 10 January 2011

Reference Benchmark: FTSE World Government Bond Index (35% HKD hedged)

	1 year (%)	5 year ann. (%)	10 year ann. (%)	Since Launch ann. (%)
Fund Performance*	5.18	-0.66	N/A	-0.28
Benchmark/Performance Target#	6.47	3.80	N/A	2.44
Deviation	-1.29	-4.46	N/A	-2.72

The fund's gross performance outperformed its benchmark in 2019. Allocations to corporate bonds contributed to the performance as credit spread tightened, providing advantages in both yield and price appreciation over government bonds during the year. The fund continued to maintain lower duration compared to benchmark.

Principal Asset Management Company (Asia) Limited takes continuous effort in reviewing the underlying managers and making appropriate adjustment to the strategic underlying fund allocation to enhance the risk-adjusted performance.

PRINCIPAL MPF – SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Commentary by the Trustee (continued)

Principal Dynamic Global Equity Fund

Launch Date: 1 December 2000

Reference Benchmark: FTSE MPF All-World (35% HKD hedged)

	1 year (%)	5 year ann. (%)	10 year ann. (%)	Since Launch ann. (%)
Fund Performance*	25.19	5.98	7.03	2.12
Benchmark/Performance Target#	26.32	8.86	9.33	N/A
Deviation	-1.13	-2.88	-2.30	N/A

The fund had a positive return in 2019 as global equity markets rebounded, especially in 1Q. Overweighting the North American market contributed as US economy continued to thrive compared to other regions. The fund's underweight position in Hong Kong also helped during the year. In terms of stock selection, holdings in Europe and Japan market took the lead and generated positive effect.

Principal Asset Management Company (Asia) Limited takes continuous effort in reviewing the underlying managers and making appropriate adjustment to the strategic underlying fund allocation to enhance the risk-adjusted performance.

PRINCIPAL MPF – SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Commentary by the Trustee (continued)

Principal Dynamic Greater China Equity Fund

Launch Date: 13 August 2012

Reference Benchmark: FTSE MPF Greater China

	1 year (%)	5 year ann. (%)	10 year ann. (%)	Since Launch ann. (%)
Fund Performance*	31.94	8.27	N/A	9.52
Benchmark/Performance Target#	19.14	7.75	N/A	8.84
Deviation	12.80	0.52	N/A	0.68

The fund outperformed market benchmark in 2019. Country allocation was in line with benchmark while stock selection outperformed as holdings in China, Taiwan and Hong Kong markets all recorded positive excess returns. The portfolio continued to maintain an overweight position in China while underweighting Hong Kong market.

Principal Asset Management Company (Asia) Limited takes continuous effort in reviewing the underlying managers and making appropriate adjustment to the strategic underlying fund allocation to enhance the risk-adjusted performance.

PRINCIPAL MPF – SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Commentary by the Trustee (continued)

Principal Dynamic Hong Kong Equity Fund

Launch Date: 10 January 2011

Reference Benchmark: FTSE MPF Hong Kong

	1 year (%)	5 year ann. (%)	10 year ann. (%)	Since Launch ann. (%)
Fund Performance*	11.85	3.66	N/A	2.48
Benchmark/Performance Target#	14.36	6.75	N/A	5.11
Deviation	-2.51	-3.09	N/A	-2.63

The fund's gross return lagged market benchmark in 2019. The fund relies heavily on bottom up investing strategies and the main detractors came from stock selection. To a slight extent, Financials and Real Estate were the two sectors which provide the strongest contribution to absolute performance.

Principal Asset Management (Asia) Limited takes continuous effort in reviewing the underlying managers and making appropriate adjustment to the strategic underlying fund allocation to enhance the risk-adjusted performance.

PRINCIPAL MPF – SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Commentary by the Trustee (continued)

Principal Growth Fund

Launch Date: 1 December 2000

Reference Benchmark: Willis Towers Watson Composite Benchmark (>80% - 100% Equity)

	1 year (%)	5 year ann. (%)	10 year ann. (%)	Since Launch ann. (%)
Fund Performance*	15.91	4.53	4.49	3.83
Benchmark/Performance Target#	18.78	7.02	6.91	N/A
Deviation	-2.87	-2.49	-2.42	N/A

The fund utilizes both top-down (asset allocation) and bottom-up (stock selection) investing strategies. In 2019, asset allocation was positive due to successful allocations between underlying portfolios. Bond portfolios added value on issuer and term structure level. Although the underlying bond investments posed good performance against its benchmark, the overall fund lagged the market benchmark as stock selection from underlying equity portions underperformed.

PRINCIPAL MPF – SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Commentary by the Trustee (continued)

Principal Guaranteed Fund

Launch Date: 1 December 2000

Reference Benchmark: MPF Prescribed Savings Rate

	1 year (%)	5 year ann. (%)	10 year ann. (%)	Since Launch ann. (%)
Fund Performance*	1.00	1.40	2.57	2.71
Benchmark/Performance Target#	0.11	0.03	0.02	0.45
Deviation	0.89	1.37	2.55	2.26

For 2019, the 'Declared Crediting Rate' for the Principal Guaranteed Fund remained unchanged at 1.0% per annum.

PRINCIPAL MPF – SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Commentary by the Trustee (continued)

Principal - Hang Seng Index Tracking Fund

Launch Date: 3 November 2014

Reference Benchmark: Hang Seng Index Total Return Index

	1 year (%)	5 year ann. (%)	10 year ann. (%)	Since Launch ann. (%)
Fund Performance*	11.86	5.82	N/A	5.39
Benchmark/Performance Target#	13.05	7.44	N/A	6.88
Deviation	-1.19	-1.62	N/A	-1.49

The fund provides investment results that closely correspond to the performance of the Hang Seng Index through investing all or substantially all of the fund's assets in units of the Tracker Fund of Hong Kong. 2019 before-fee performance for the fund was broadly in line with the Hang Seng Index.

PRINCIPAL MPF – SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Commentary by the Trustee (continued)

Principal - MPF Conservative Fund

Launch Date: 1 December 2000

Reference Benchmark: MPF Prescribed Savings Rate

	1 year (%)	5 year ann. (%)	10 year ann. (%)	Since Launch ann. (%)
Fund Performance*	1.01	0.31	0.16	0.52
Benchmark/Performance Target#	0.11	0.03	0.02	0.45
Deviation	0.90	0.28	0.14	0.07

The fund comfortably achieved its objective, which is to at least earn a net return equal to the "prescribed savings rate" (which is broadly the average rate of interest on a Hong Kong dollar savings account) determined by the MPFA.

PRINCIPAL MPF – SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Commentary by the Trustee (continued)

Principal Stable Fund

Launch Date: 1 December 2000

Reference Benchmark: Willis Towers Watson Composite Benchmark (>20% - 40% Equity)

	1 year (%)	5 year ann. (%)	10 year ann. (%)	Since Launch ann. (%)
Fund Performance*	8.25	1.82	1.56	2.84
Benchmark/Performance Target#	9.61	3.84	3.82	N/A
Deviation	-1.36	-2.02	-2.26	N/A

The fund utilizes both top-down (asset allocation) and bottom-up (stock selection) investing strategies. In 2019, asset allocation was positive due to successful allocations between underlying portfolios. Bond portfolios added value on issuer and term structure level. Although the underlying bond investments posed good performance against its benchmark, the overall fund lagged the market benchmark as stock selection from underlying equity portions underperformed.

* The fund performance are net-of-fees returns in HKD terms on NAV-to-NAV basis. For details on fees and expense, please refer to its Fund Expense Ratio.

Unlike the fund performance, the benchmark returns are stated on a total return basis, and do not include the impact of expenses, such as transaction costs and valuations with different sources of FX rates. Since inception returns of FTSE MPF index series may not be provided because the indices were only available since 2005. Since inception returns of Willis Towers Watson Composite Benchmarks are not available because they are not provided in the MPF Performance Book.

In addition, the reference benchmarks are widely accepted by investment managers in the market, but the underlying fund manager of the fund may manage the portfolio against a different index.

PRINCIPAL MPF – SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Performance assessment framework:

Principal Trust Company (Asia) Limited (the "Trustee") and Principal Asset Management Company (Asia) Limited (the "Investment Manager") take continuous efforts in reviewing and improving the performance of the Constituent Funds.

Currently, an investment committee is in place to oversee the performance of the Constituent Funds and the underlying fund managers. Both absolute and relative returns comparing against peers and benchmarks are reviewed. Assessment of under-performing funds would be further conducted, whilst appropriate actions would be taken if necessary, including but not limited to rebalancing the strategic asset allocation, replacing the existing underlying funds and reviewing the investment objective and policy. The Board of the Trustee will review the performance results and enhancement plans delivered by the investment committee on a quarterly basis.

In addition, Trustee and Investment Manager are dedicated to reviewing the scheme structure. Possible merger and consolidation would be considered in order to increase efficiency of the operational and administrative process.

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Changes in the statement of investment policy

Principal Age 65 Plus Fund

Principal Balanced fund

Principal Cash Fund

Principal Core Accumulation Fund

Principal Dynamic Asian Bond Fund

Principal Dynamic Asia Pacific Equity Fund

Principal Dynamic Global Bond Fund

Principal Dynamic Global Equity Fund

Principal Dynamic Greater China Equity Fund

Principal Dynamic Hong Kong Equity Fund

Principal Growth Fund

Principal Guaranteed Fund

Principal - Hang Seng Index Tracking Fund

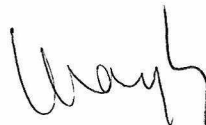
Principal - MPF Conservative Fund

Principal Stable Fund

During the year under review, there were no major changes in the investment objectives and policies of the above funds that would significantly affect their risks profile.

For and on behalf of

Principal Trust Company (Asia) Limited



Hong Kong
19 June 2020

PRINCIPAL MPF - SMART PLAN

SCHEME REPORT

The Trustee hereby submits the scheme report together with the audited financial statements of Principal MPF – Smart Plan (the "Scheme") for the year ended 31 December 2019 in accordance with section 86 of Mandatory Provident Fund Schemes (General) Regulation ("MPF Regulation").

The Scheme

The Scheme is a master trust scheme registered in accordance with the Mandatory Provident Fund Schemes Ordinance (the "Ordinance") for the purpose of providing retirement benefits to members. The Scheme was established under a Master Trust Deed dated 27 January 2000, as subsequently amended. The Scheme is registered under section 21 of the Ordinance.

Financial development

During the year, the Scheme operated in accordance with the MPF regime. All assets of the Scheme are invested in accordance with the prescribed policy in the Master Trust Deed.

Enquiry

Further information about the Scheme and its operation can be obtained by contacting Principal Trust Company (Asia) Limited, the administrator of the Scheme, at 2802-2812 or via the internet at www.principal.com.hk.

Directory of parties

Details of those parties engaged by the Trustee for the purposes of providing services to the Scheme during the year ended 31 December 2019 are set out on pages 1 to 2.

Principal Financial Group, Inc. is the ultimate holding company of Principal Trust Company (Asia) Limited and Principal Insurance Company (Hong Kong) Limited.

Change to the governing rules

During the financial year ended 31 December 2019, the governing rules of the Scheme have been changed pursuant to the Seventh Addendum to the Offering Document dated 15 February 2019 and the Eighth Addendum dated 30 December 2019.

The changes are in relation to the following: (1) Annual Fund Operating Charges & Expenses of Constituent Funds & Underlying AIFs; (2) Breakdown of management fees; (3) Authorisation by the Securities and Futures Commission; and (4) Miscellaneous changes.

PRINCIPAL MPF - SMART PLAN

SCHEME REPORT (continued)

Directors

The directors of Principal Trust Company (Asia) Limited during the year and up to the date of this report were:

David Mark Ashton (appointed on 17 January 2020)

30/F, Millennium City 6
392 Kwun Tong Road
Kwun Tong, Kowloon
Hong Kong

Fick Douglas Alan

30/F, Millennium City 6
392 Kwun Tong Road
Kwun Tong, Kowloon
Hong Kong

Fong Hei Man May

30/F, Millennium City 6
392 Kwun Tong Road
Kwun Tong, Kowloon
Hong Kong

Guy Richard Montag

30/F, Millennium City 6
392 Kwun Tong Road
Kwun Tong, Kowloon
Hong Kong

Lam Heung Yeung Herman (appointed on 26 June 2019)

30/F, Millennium City 6
392 Kwun Tong Road
Kwun Tong, Kowloon
Hong Kong

Li Wing Kuen

30/F, Millennium City 6
392 Kwun Tong Road
Kwun Tong, Kowloon
Hong Kong

Tay Soo Meng

30/F, Millennium City 6
392 Kwun Tong Road
Kwun Tong, Kowloon
Hong Kong

Wong Chien Kuo James (appointed on 26 June 2019)

30/F, Millennium City 6
392 Kwun Tong Road
Kwun Tong, Kowloon
Hong Kong

PRINCIPAL MPF - SMART PLAN

SCHEME REPORT (continued)

Controllers

The controllers of Principal Insurance Company (Hong Kong) Limited during the year and up to the date of this report were:

Borda Pedro Esteban (resigned on 12 July 2019)
30/F, Millennium City 6
392 Kwun Tong Road
Kwun Tong, Kowloon
Hong Kong

Cheong Wee Yee
30/F, Millennium City 6
392 Kwun Tong Road
Kwun Tong, Kowloon
Hong Kong

Chow Wing Kay
30/F, Millennium City 6
392 Kwun Tong Road
Kwun Tong, Kowloon
Hong Kong

David Mark Ashton (appointed on 17 January 2020)
30/F, Millennium City 6
392 Kwun Tong Road
Kwun Tong, Kowloon
Hong Kong

Fick Douglas Alan
30/F, Millennium City 6
392 Kwun Tong Road
Kwun Tong, Kowloon
Hong Kong

Guy Richard Montag
30/F, Millennium City 6
392 Kwun Tong Road
Kwun Tong, Kowloon
Hong Kong

Wong Yuk Ying
30/F, Millennium City 6
392 Kwun Tong Road
Kwun Tong, Kowloon
Hong Kong

PRINCIPAL MPF - SMART PLAN

SCHEME REPORT (continued)

Controllers (continued)

The controllers of Principal Insurance Company (Hong Kong) Limited during the year and up to the date of this report were: (continued)

Principal International (Asia) Limited
Unit 1001-1002, Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Principal Financial Group, Inc.
711 High Street, Des Moines
Iowa 50392, U.S.A.

Principal Financial Services, Inc.
711 High Street, Des Moines
Iowa 50392, U.S.A.

Principal International, LLC
711 High Street, Des Moines
Iowa 50392, U.S.A.

PRINCIPAL MPF - SMART PLAN

SCHEME REPORT (continued)

Controllers

The controllers of Principal Asset Management Company (Asia) Limited during the year and up to the date of this report were:

Binay Chandgothia
30/F, Millennium City 6
392 Kwun Tong Road
Kwun Tong, Kowloon
Hong Kong

Cheong Wee Yee (appointed on 31 May 2019)
30/F, Millennium City 6
392 Kwun Tong Road
Kwun Tong, Kowloon
Hong Kong

Nora Mary Everett (resigned on 29 March 2019)
30/F, Millennium City 6
392 Kwun Tong Road
Kwun Tong, Kowloon
Hong Kong

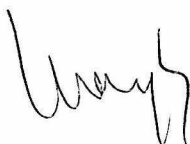
Principal International (Asia) Limited
Unit 1001-1002, Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Principal Financial Group, Inc.
711 High Street, Des Moines
Iowa 50392, U.S.A.

Principal Financial Services, Inc.
711 High Street, Des Moines
Iowa 50392, U.S.A.

Principal International, LLC
711 High Street, Des Moines
Iowa 50392, U.S.A.

For and on behalf of
Principal Trust Company (Asia) Limited



Hong Kong
19 June 2020



Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

安永會計師事務所
香港中環添美道1號
中信大廈22樓

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Fax 傳真: +852 2868 4432
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Independent auditor's report To the Trustee of Principal MPF - Smart Plan

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Principal MPF – Smart Plan (the "Scheme") set out on pages 57 to 95, which comprise the statement of net assets available for benefits as at 31 December 2019, and the statement of profit or loss and other comprehensive income, the statement of changes in net assets available for benefits, and the statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Scheme as at 31 December 2019, and of its financial transactions and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") and with reference to Practice Note 860.1 (Revised), *The Audit of Retirement Schemes* issued by the HKICPA. Our responsibilities under those standards are further described in *the Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Scheme in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information included in the Annual Report

The trustee is responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Trustee for the Financial Statements

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

Independent auditor's report (continued)
To the Trustee of Principal MPF - Smart Plan

Responsibilities of Trustee for the Financial Statements (continued)

In preparing the financial statements, the trustee is responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustee either intends to liquidate the Scheme or to cease operations, or has no realistic alternative but to do so.

In addition, the trustee is required to ensure that the financial statements have been properly prepared in accordance with sections 80, 81, 83 and 84 of the Mandatory Provident Fund Schemes (General) Regulation (the "General Regulation").

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. In addition, we are required to assess whether the financial statements of the Scheme has been properly prepared, in all material respects, in accordance with sections 80, 81, 83 and 84 of the General Regulation.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Scheme's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the trustee.
- Conclude on the appropriateness of the trustee's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Scheme's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Scheme to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Independent auditor's report (continued)
To the Trustee of Principal MPF - Smart Plan

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

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

Report on matters under the Mandatory Provident Fund Schemes (General) Regulation

- (a) In our opinion, the financial statements have been properly prepared, in all material respects, in accordance with sections 80, 81, 83 and 84 of the General Regulation.
- (b) We have obtained all the information and explanations which, to the best of our knowledge and belief, are necessary for the purpose of our audit.



Certified Public Accountants
Hong Kong
19 June 2020

PRINCIPAL MPF - SMART PLAN

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2019

		2019																
Notes	Principal Age 65 Plus Fund HK\$	Principal Balance Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal Guaranteed Fund HK\$	Principal -Hang Seng Index Tracking Fund HK\$	Principal -MPF Conservative Fund HK\$	Principal Stable Fund HK\$	Scheme Level HK\$	Total HK\$	
Income																		
	-	-	-	-	-	-	-	-	-	-	-	-	15,131,249	-	-	-	15,131,249	
Distribution income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Gains on investments	4	12,300,200	285,252,933	13,146,516	45,680,125	8,327,290	136,312,356	20,320,731	548,339,102	240,850,891	144,428,751	441,266,983	124,923,476	38,348,734	29,281,098	146,085,107	2,234,864,293	
Interest income	3	-	-	-	-	1	-	-	-	-	-	-	144	-	-	-	145	
Rebate income	5(j)	-	-	-	-	42,499	118,340	71,832	289,780	-	-	-	-	-	-	-	522,451	
		<u>12,300,200</u>	<u>285,252,933</u>	<u>13,146,516</u>	<u>45,680,125</u>	<u>8,369,790</u>	<u>136,430,696</u>	<u>20,392,563</u>	<u>548,628,882</u>	<u>240,850,891</u>	<u>144,428,751</u>	<u>441,266,983</u>	<u>124,923,476</u>	<u>53,480,127</u>	<u>29,281,098</u>	<u>146,085,107</u>	<u>2,250,518,138</u>	
Expenditure																		
Audit fee		(2,208)	(45,404)	(13,497)	(5,304)	(3,541)	(17,590)	(7,189)	(48,477)	(16,727)	(25,488)	(60,082)	-	(9,247)	(32,248)	(34,898)	(321,900)	
Investment management fee	5(a),(d)	(260,708)	(5,064,584)	(470,947)	(588,351)	(528,836)	(2,467,234)	(1,012,543)	(6,964,231)	(2,988,319)	(4,137,369)	(6,805,467)	-	(205,858)	(1,154,394)	(3,842,454)	(36,491,295)	
Investment transaction costs		-	-	-	-	-	-	-	-	-	-	-	-	(34,773)	-	-	(34,773)	
Legal and professional fees		(23,610)	(44,360)	(12,192)	(68,196)	(3,706)	(18,338)	(7,864)	(52,780)	(20,521)	(25,279)	(60,167)	-	(10,343)	(13,344)	(33,234)	(393,934)	
Management fee	5(b)	(196,264)	(7,851,103)	(1,315,153)	(466,701)	(501,663)	(3,162,575)	(1,033,862)	(8,719,950)	(2,638,590)	(4,590,780)	(10,530,965)	-	(938,645)	(3,285,786)	(5,899,401)	(51,131,438)	
Operating expenses	5(e)	(31,957)	(337,660)	(90,824)	(41,364)	(24,844)	(97,992)	(41,582)	(266,262)	(88,183)	(145,687)	(328,668)	-	(133,360)	(316,494)	(181,483)	(2,126,360)	
Sponsor fee	5(a),(f)	-	(3,836,806)	(1,070,335)	-	(323,070)	(1,542,021)	(649,066)	(4,374,252)	(1,642,294)	(2,200,728)	(5,155,657)	-	(858,061)	(2,623,622)	(2,910,950)	(27,186,862)	
Trustee and administrator fee	5(a),(c)	(521,416)	(15,193,753)	(2,440,364)	(1,176,703)	(839,982)	(6,168,086)	(1,999,124)	(17,497,006)	(4,204,274)	(7,570,506)	(20,416,402)	-	(1,990,701)	(6,401,638)	(11,527,360)	(97,947,315)	
		<u>(1,036,163)</u>	<u>(32,373,670)</u>	<u>(5,413,312)</u>	<u>(2,346,619)</u>	<u>(2,225,642)</u>	<u>(13,473,836)</u>	<u>(4,751,230)</u>	<u>(37,922,958)</u>	<u>(11,598,908)</u>	<u>(18,695,837)</u>	<u>(43,357,408)</u>	<u>-</u>	<u>(4,180,988)</u>	<u>(13,827,526)</u>	<u>(24,429,780)</u>	<u>(215,633,877)</u>	
Increase in net assets available for benefits and total profit or loss and other comprehensive income for the year																		
	<u>11,264,037</u>	<u>252,879,263</u>	<u>7,733,204</u>	<u>43,333,506</u>	<u>6,144,148</u>	<u>122,956,860</u>	<u>15,641,333</u>	<u>510,705,924</u>	<u>229,251,983</u>	<u>125,732,914</u>	<u>397,909,575</u>	<u>124,923,476</u>	<u>49,299,139</u>	<u>15,453,572</u>	<u>121,655,327</u>	<u>-</u>	<u>2,034,884,261</u>	

PRINCIPAL MPF - SMART PLAN

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)

Year ended 31 December 2019

		2018																
Notes	Principal Age 65 Plus Fund HK\$	Principal Balance Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal Guaranteed Fund HK\$	Principal -Hang Seng Index Tracking Fund HK\$	Principal -MPF Conservative Fund HK\$	Principal Stable Fund HK\$	Scheme Level HK\$	Total HK\$	
Income																		
	-	-	-	-	-	-	-	-	-	-	-	-	13,321,244	-	-	-	13,321,244	
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	-	-	-	-	-	-	-	-	-	-	-	-	436	-	-	-	436	
	-	-	-	-	23,421	8,036,422	3,088,127	21,821,260	146,025	119,499	-	-	-	-	-	-	33,234,754	
	(1,083,285)	(194,903,711)	9,900,092	(13,687,609)	440,428	(86,874,456)	361,112	(215,887,067)	(159,289,643)	(167,733,250)	(335,039,974)	(43,268,936)	(42,380,483)	20,977,530	(64,669,199)	-	(1,293,138,451)	
Expenditure																		
	(2,343)	(53,423)	(13,019)	(5,304)	(4,006)	(22,753)	(7,536)	(57,557)	(23,146)	(31,068)	(73,817)	-	(12,263)	(32,144)	(37,911)	-	(376,290)	
	-	-	-	-	-	-	-	-	-	-	-	-	(47,704)	-	-	-	(47,704)	
	(40,314)	-	-	(121,140)	-	-	-	-	-	-	-	-	-	-	-	-	(161,454)	
	(604,657)	(33,878,560)	(5,069,351)	(1,532,545)	(1,892,964)	(16,482,427)	(5,099,822)	(46,147,674)	(11,379,273)	(19,843,513)	(46,338,379)	-	(3,587,307)	(14,034,374)	(24,575,668)	-	(230,466,514)	
	(45,620)	(391,580)	(106,367)	(86,724)	(47,118)	(178,428)	(74,067)	(444,572)	(177,151)	(248,058)	(556,944)	-	(303,592)	(363,889)	(295,451)	-	(3,319,561)	
	(692,934)	(34,323,563)	(5,188,737)	(1,745,713)	(1,944,088)	(16,683,608)	(5,181,425)	(46,649,803)	(11,579,570)	(20,122,639)	(46,969,140)	-	(3,950,866)	(14,430,407)	(24,909,030)	-	(234,371,523)	
Increase/(decrease) in net assets available for benefits and total profit or loss and other comprehensive income for the year																		
	(1,776,219)	(229,227,274)	4,711,355	(15,433,322)	(1,503,660)	(103,558,064)	(4,820,313)	(262,536,870)	(170,869,213)	(187,855,889)	(382,009,114)	(43,268,936)	(46,331,349)	6,547,123	(89,578,229)	-	(1,527,509,974)	

PRINCIPAL MPF - SMART PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

Year ended 31 December 2019

		2019																
Notes	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	*Principal Guaranteed Fund HK\$	Principal - Hang Seng Index Tracking Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$	Scheme Level HK\$	Total HK\$	
ASSETS																		
Investments measured at fair value through profit or loss																		
6	163,147,716	2,096,653,217	564,755,404	358,659,420	173,158,892	866,614,906	367,424,516	2,496,287,988	961,764,797	1,193,972,201	2,846,582,528	3,325,389,955	486,804,252	1,415,458,304	1,569,131,138	-	18,885,805,234	
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	116,570,363	116,570,363	
	2,983,363	5,531,350	17,032,704	4,349,601	1,273,440	3,181,046	6,872,538	8,808,509	12,865,059	5,436,378	5,986,416	-	7,568,444	13,503,234	6,901,832	-	102,293,914	
	159,978	5,291,897	9,380,425	189,834	4,043,503	2,167,334	1,218,749	5,107,290	2,485,840	4,457,102	8,333,576	-	-	6,102,754	3,162,742	-	52,101,024	
7	-	-	-	-	1,591,510	-	-	-	-	-	-	-	2,203,599	-	-	57,744,604	61,539,713	
	-	-	-	-	42,499	-	408,474	-	-	-	-	-	112,254	-	-	-	563,227	
	<u>166,291,057</u>	<u>2,107,476,464</u>	<u>591,168,533</u>	<u>363,198,855</u>	<u>180,109,844</u>	<u>871,963,286</u>	<u>375,924,277</u>	<u>2,510,203,787</u>	<u>977,115,696</u>	<u>1,203,865,681</u>	<u>2,860,902,520</u>	<u>3,325,389,955</u>	<u>496,688,549</u>	<u>1,435,064,292</u>	<u>1,579,195,712</u>	<u>174,314,967</u>	<u>19,218,873,475</u>	
LIABILITIES																		
Amounts pending for allocation																		
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	41,518,783	41,518,783	
Amounts payable on redemptions																		
	631,444	6,322,103	10,871,965	435,521	4,119,151	2,532,263	1,569,816	8,173,652	3,381,942	7,141,370	9,337,219	-	4,279,075	7,621,428	4,187,639	13,020,949	83,625,537	
Amounts payable to brokers																		
	1,724,658	1,067,292	3,321,805	924,993	418,829	764,706	1,380,483	2,539,333	1,353,267	819,784	2,303,193	-	2,029,927	3,124,341	1,382,055	-	23,154,666	
Accounts payable and accruals																		
	238,690	3,724,920	668,796	546,620	273,744	1,543,877	581,489	4,439,422	1,395,188	2,055,536	4,877,410	-	624,642	1,803,628	2,718,116	3,204,872	28,696,950	
	<u>2,594,792</u>	<u>11,114,315</u>	<u>14,862,566</u>	<u>1,907,134</u>	<u>4,811,724</u>	<u>4,840,846</u>	<u>3,531,788</u>	<u>15,152,407</u>	<u>6,130,397</u>	<u>10,016,690</u>	<u>16,517,822</u>	<u>-</u>	<u>6,933,644</u>	<u>12,549,397</u>	<u>8,287,810</u>	<u>57,744,604</u>	<u>176,995,936</u>	
Net assets available for benefits																		
	<u>163,696,265</u>	<u>2,096,362,149</u>	<u>576,305,967</u>	<u>361,291,721</u>	<u>175,298,120</u>	<u>867,122,440</u>	<u>372,392,489</u>	<u>2,495,051,380</u>	<u>970,985,299</u>	<u>1,193,848,991</u>	<u>2,844,384,698</u>	<u>3,325,389,955</u>	<u>489,754,905</u>	<u>1,422,514,895</u>	<u>1,570,907,902</u>	<u>116,570,363</u>	<u>19,041,877,539</u>	

PRINCIPAL MPF - SMART PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS (continued)

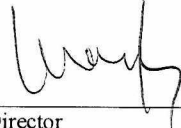
Year ended 31 December 2019

		2019 (continued)													
Notes	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	*Principal Guaranteed Fund HK\$	Principal - Hang Seng Index Tracking Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$
Number of units in issue	8 14,818,202.8491	107,833,023.1844	50,337,769.8962	30,505,702.3203	17,285,371.8111	61,499,331.3846	38,186,318.8243	167,230,243.8689	49,575,292.2755	95,812,586.6318	138,949,416.4328	N/A	37,339,618.6469	128,753,197.7661	92,044,555.2463
Net asset value per unit	11.04	19.44	11.44	11.84	10.14	14.09	9.75	14.91	19.58	12.46	20.47	N/A	13.11	11.04	17.06

* At 31 December 2019, the surplus of the value of net assets available for benefits held in respect of the Principal Guaranteed Fund over the account balance credited to the policyholders amounted to HK\$250,950,664 (2018: HK\$156,840,096).

For and on behalf of
Principal Trust Company (Asia) Limited


Director


Director

PRINCIPAL MPF - SMART PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS (continued)

Year ended 31 December 2019

		2018																
Notes	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal Guaranteed Fund HK\$	Principal - Hang Seng Index Tracking Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$	Scheme level HK\$	Total HK\$	
ASSETS																		
Investments measured at fair value through profit or loss																		
6	99,001,464	1,919,502,351	567,365,157	229,627,335	149,375,520	742,175,601	303,019,608	2,047,296,124	704,542,335	1,075,078,136	2,539,607,938	3,257,263,868	391,085,264	1,356,855,609	1,474,765,886	-	16,856,562,196	
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	122,008,074	122,008,074	
	533,626	2,131,483	6,743,333	751,179	1,002,110	1,352,383	1,943,478	5,148,517	4,542,031	3,824,676	4,145,268	-	3,659,584	9,368,366	2,391,684	-	47,537,718	
	113,850	8,798,762	6,570,759	248,432	676,972	3,420,956	1,295,917	11,218,899	2,797,149	2,259,799	13,119,926	-	230,786	13,014,313	8,296,966	-	72,063,486	
7	-	-	-	-	-	-	-	-	-	-	-	-	154,338	-	-	26,813,129	26,967,467	
	-	-	-	-	-	448,438	336,641	1,122,691	-	-	-	-	135,509	-	-	-	2,043,279	
	<u>99,648,940</u>	<u>1,930,432,596</u>	<u>580,679,249</u>	<u>230,626,946</u>	<u>151,054,602</u>	<u>747,397,378</u>	<u>306,595,644</u>	<u>2,064,786,231</u>	<u>711,881,515</u>	<u>1,081,162,611</u>	<u>2,556,873,132</u>	<u>3,257,263,868</u>	<u>395,265,481</u>	<u>1,379,238,288</u>	<u>1,485,454,536</u>	<u>148,821,203</u>	<u>17,127,182,220</u>	
LIABILITIES																		
Amounts pending for allocation																		
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7,920,326	7,920,326	
Amounts payable on redemptions																		
	162,896	9,203,178	9,151,895	415,025	849,092	4,872,829	1,406,332	13,702,507	3,019,901	3,174,126	14,519,465	-	3,841,567	14,387,104	8,631,333	18,843,131	106,180,381	
Amounts payable to brokers																		
	93,760	177,733	2,074,165	72,226	32,080	159,389	1,092,864	448,425	672,788	86,388	931,300	-	-	223,103	255,031	-	6,319,252	
Accounts payable and accruals																		
	126,926	2,716,454	488,469	322,289	174,455	487,077	136,303	1,398,533	863,838	1,525,498	3,578,292	-	351,707	1,392,187	2,054,273	49,672	15,665,973	
	<u>383,582</u>	<u>12,097,365</u>	<u>11,714,529</u>	<u>809,540</u>	<u>1,055,627</u>	<u>5,519,295</u>	<u>2,635,499</u>	<u>15,549,465</u>	<u>4,556,527</u>	<u>4,786,012</u>	<u>19,029,057</u>	<u>-</u>	<u>4,193,274</u>	<u>16,002,394</u>	<u>10,940,637</u>	<u>26,813,129</u>	<u>136,085,932</u>	
Net assets available for benefits																		
	<u>99,265,358</u>	<u>1,918,335,231</u>	<u>568,964,720</u>	<u>229,817,406</u>	<u>149,998,975</u>	<u>741,878,083</u>	<u>303,960,145</u>	<u>2,049,236,766</u>	<u>707,324,988</u>	<u>1,076,376,599</u>	<u>2,537,844,075</u>	<u>3,257,263,868</u>	<u>391,072,207</u>	<u>1,363,235,894</u>	<u>1,474,513,899</u>	<u>122,008,074</u>	<u>16,991,096,288</u>	

PRINCIPAL MPF - SMART PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS (continued)

Year ended 31 December 2019

		2018 (continued)														
Notes	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal Guaranteed Fund HK\$	Principal - Hang Seng Index Tracking Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$	
Number of units in issue	8	<u>9,859,642.3258</u>	<u>111,862,944.1968</u>	<u>50,375,287.5899</u>	<u>22,593,044.5334</u>	<u>15,370,387.2545</u>	<u>61,319,365.7094</u>	<u>32,780,620.9019</u>	<u>172,129,554.2623</u>	<u>47,635,198.7100</u>	<u>96,552,324.2550</u>	<u>143,674,215.8866</u>	<u>N/A</u>	<u>33,362,444.8478</u>	<u>124,762,169.9924</u>	<u>93,552,763.4107</u>
Net asset value per unit		<u>10.06</u>	<u>17.14</u>	<u>11.29</u>	<u>10.17</u>	<u>9.75</u>	<u>12.10</u>	<u>9.27</u>	<u>11.91</u>	<u>14.84</u>	<u>11.14</u>	<u>17.66</u>	<u>N/A</u>	<u>11.72</u>	<u>10.93</u>	<u>15.76</u>

PRINCIPAL MPF - SMART PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

Year ended 31 December 2019

		2019															
Notes	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal Guaranteed Fund HK\$	Principal - Hang Seng Index Tracking Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$	Scheme level HK\$	Total HK\$
Balance brought forward	99,265,358	1,918,335,231	568,964,720	229,817,406	149,998,975	741,878,083	303,960,145	2,049,236,766	707,324,988	1,076,376,599	2,537,844,075	3,257,263,868	391,072,207	1,363,235,894	1,474,513,899	122,008,074	16,991,096,288
Contributions received and receivable	9 98,086,723	297,669,211	273,587,886	179,255,822	80,659,689	185,483,739	160,045,896	353,206,420	358,611,513	334,845,656	432,818,315	677,350,317	350,061,638	540,169,009	273,079,924	(5,437,711)	4,589,494,047
Withdrawals paid and payable	10 (44,919,853)	(372,521,556)	(273,979,843)	(91,115,013)	(61,504,692)	(183,196,242)	(107,254,885)	(418,097,730)	(324,203,185)	(343,106,178)	(524,187,267)	(734,147,706)	(300,678,079)	(496,343,580)	(298,341,248)	-	(4,573,597,057)
Increase in net assets available for benefits and total profit or loss and other comprehensive income	11,264,037	252,879,263	7,733,204	43,333,506	6,144,148	122,956,860	15,641,333	510,705,924	229,251,983	125,732,914	397,909,575	124,923,476	49,299,139	15,453,572	121,655,327	-	2,034,884,261
Balance carried forward	163,696,265	2,096,362,149	576,305,967	361,291,721	175,298,120	867,122,440	372,392,489	2,495,051,380	970,985,299	1,193,848,991	2,844,384,698	3,325,389,955	489,754,905	1,422,514,895	1,570,907,902	116,570,363	19,041,877,539

PRINCIPAL MPF - SMART PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS (continued)

Year ended 31 December 2019

		2018																
	Notes	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal Guaranteed Fund HK\$	Principal - Hang Seng Index Tracking Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$	Scheme level HK\$	Total HK\$
Balance brought forward		52,879,409	2,218,812,779	498,431,358	159,738,181	124,777,907	898,299,635	275,377,647	2,445,882,288	845,266,553	1,337,956,483	3,115,778,498	3,204,034,279	394,714,246	1,230,916,824	1,569,243,094	137,988,740	18,510,097,921
Contributions received and receivable	9	78,977,005	398,592,655	358,256,486	155,490,237	97,117,188	226,443,118	147,100,908	386,212,133	437,638,334	406,428,370	532,974,075	906,067,085	380,174,271	681,153,917	400,349,546	(15,980,666)	5,576,994,662
Withdrawals paid and payable	10	(30,814,837)	(469,842,929)	(292,434,479)	(69,977,690)	(70,392,460)	(279,306,606)	(113,698,097)	(520,320,785)	(404,710,686)	(480,152,365)	(728,899,384)	(809,568,560)	(337,484,961)	(555,381,970)	(405,500,512)	-	(5,568,486,321)
Increase/(decrease) in net assets available for benefits and total profit or loss and other comprehensive income		(1,776,219)	(229,227,274)	4,711,355	(15,433,322)	(1,503,660)	(103,558,064)	(4,820,313)	(262,536,870)	(170,869,213)	(187,855,889)	(382,009,114)	(43,268,936)	(46,331,349)	6,547,123	(89,578,229)	-	(1,527,509,974)
Balance carried forward		<u>99,265,358</u>	<u>1,918,335,231</u>	<u>568,964,720</u>	<u>229,817,406</u>	<u>149,998,975</u>	<u>741,878,083</u>	<u>303,960,145</u>	<u>2,049,236,766</u>	<u>707,324,988</u>	<u>1,076,376,599</u>	<u>2,537,844,075</u>	<u>3,257,263,868</u>	<u>391,072,207</u>	<u>1,363,235,894</u>	<u>1,474,513,899</u>	<u>122,008,074</u>	<u>16,991,096,288</u>

PRINCIPAL MPF - SMART PLAN

STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Note	2019 HK\$	2018 HK\$
Cash flows from operating activities			
Interest received		145	436
Distribution income received		15,131,249	13,321,244
Other income received		2,002,503	35,297,109
Operating expenses paid		(205,723,775)	(237,880,460)
Net cash flows used in operating activities		<u>(188,589,878)</u>	<u>(189,261,671)</u>
Cash flows from investing activities			
Purchase of investment		(7,050,114,747)	(5,724,009,465)
Proceeds on sale of investment		7,292,499,553	5,835,830,365
Net cash generated from investing activities		<u>242,384,806</u>	<u>111,820,900</u>
Cash flows from financing activities			
Contributions received		4,540,175,562	5,604,535,593
Withdrawals paid		(4,559,398,244)	(5,544,470,587)
Net cash generated (used in)/ from financing activities		<u>(19,222,682)</u>	<u>60,065,006</u>
Net increase/ (decrease) in cash and cash equivalents		34,572,246	(17,375,765)
Cash and cash equivalents at beginning of the year		<u>26,967,467</u>	<u>44,343,232</u>
Cash and cash equivalents at end of year		<u>61,539,713</u>	<u>26,967,467</u>
Analysis of balances of cash and cash equivalents:			
Bank balances	7	<u>61,539,713</u>	<u>26,967,467</u>

PRINCIPAL MPF - SMART PLAN

NOTES TO FINANCIAL STATEMENTS

31 December 2019

1. THE SCHEME

Principal MPF - Smart Plan (the "Scheme") is a mandatory provident fund scheme constituted by a trust deed dated 27 January 2000 and is governed by the laws of the Hong Kong Special Administrative Region of the People's Republic of China. The Scheme is designed to provide retirement benefits to the members under the Scheme.

Effective from 4 July 2016, the Scheme's trustee has been changed from Principal Trust Company (Hong Kong) Limited to Principal Trust Company (Asia) Limited (the "Trustee"). Under the Master Trust Deed, the Trustee is required to establish and maintain separate constituent funds (the "Constituent Fund" and collectively the "Constituent Funds") into which contributions may be invested. The Constituent Funds are notional funds established within the Scheme and are only available for investment by members of the Scheme.

The Scheme had fifteen Constituent Funds as at 31 December 2019:

- Principal Age 65 Plus Fund
- Principal Balanced fund
- Principal Cash Fund
- Principal Core Accumulation Fund
- Principal Dynamic Asian Bond Fund
- Principal Dynamic Asia Pacific Equity Fund
- Principal Dynamic Global Bond Fund
- Principal Dynamic Global Equity Fund
- Principal Dynamic Greater China Equity Fund
- Principal Dynamic Hong Kong Equity Fund
- Principal Growth Fund
- Principal Guaranteed Fund
- Principal - Hang Seng Index Tracking Fund
- Principal - MPF Conservative Fund
- Principal Stable Fund

PRINCIPAL MPF - SMART PLAN

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the Mandatory Provident Fund Schemes (General) Regulation (the "General Regulation").

These financial statements have been prepared under the historical cost convention, except for investments held at fair values through profit or loss ("FVPL"). These financial statements are presented in Hong Kong dollars.

The preparation of financial statements in conformity with HKFRSs requires the Trustee of the Scheme to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies and basis of preparation adopted in preparation of these financial statements are consistent with those of the previous financial period. Adoption of new and revised HKFRSs in the current year has had no significant effect on these financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Scheme has not applied the following new and revised HKFRSs that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i> ¹
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2020

PRINCIPAL MPF - SMART PLAN

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Further information about those HKFRSs that are expected to be applicable to the Scheme is described below.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Scheme's financial statements.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of the financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Scheme expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Scheme's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

The Scheme measures its debt and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Scheme. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Scheme uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

PRINCIPAL MPF - SMART PLAN

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Scheme determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Scheme's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Scheme has applied the practical expedient of not adjusting the effect of a significant financing component, the Scheme initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cashflows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Scheme's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Scheme commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if (a) they are acquired for the purpose of selling or repurchasing in the near term, (b) on initial recognition, it is part of a portfolio of identified financial instruments that are managed together for which, there is evidence of a recent actual pattern of short-term profit-taking, or (c) it is a derivative (except for a derivative that is a financial guarantee contract or a designed and effective hedging instruments). Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss (continued)

Financial assets at fair value through profit or loss are carried in the statement of net assets available for benefits at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes investments which the Scheme had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as gross dividend income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Scheme and the amount of the dividend can be measured reliably.

Financial assets at amortised cost (debt instruments)

A debt instrument is measured at amortised cost if it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are SPPI on the principal amount outstanding. Interest revenue is recognised in the statement of profit or loss for all interest-bearing financial instruments using the effective interest method. The Scheme includes in this category contributions receivable, subscriptions in transit, accounts receivable, cash and cash equivalent and others.

Impairment of financial assets

The Scheme recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Scheme expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Scheme assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Scheme compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Scheme considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Scheme may also consider a financial asset to be in default when internal or external information indicates that the Scheme is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Scheme. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Simplified approach

The Scheme holds the trade receivables with no significant financing component and which have maturities of less than 12 months at amortised cost and, as such, has chosen to apply an approach similar to the simplified approach for ECLs under HKFRS 9 to all its trade receivables. Therefore the Scheme does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date.

The Scheme's approach to ECLs reflects a probability-weighted outcome, the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date about the past events, current conditions and forecasts of future economic conditions.

The Scheme uses provision matrix as a practical expedient to measuring ECLs on trade receivables, based on days past due for groupings of receivables with similar loss patterns. Receivables are grouped based on their nature. The provision matrix is based on historical observed loss rates over the expected life of the receivables and is adjusted for forward-looking estimates.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Scheme's statement of net assets available for benefits) when:

- the rights to receive cash flows from the asset have expired; or
- the Scheme has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Scheme has transferred substantially all the risks and rewards of the asset, or (b) the Scheme has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Scheme has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Scheme continues to recognise the transferred asset to the extent of the Scheme's continuing involvement in the asset. In that case, the Scheme also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Scheme has retained.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Scheme's financial liabilities include amounts pending for allocation, amounts payable on redemptions, amounts payable to brokers, accounts payable and accruals.

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement

Financial liabilities at amortised cost (Loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of net assets available for benefits if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise demand deposits and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Scheme's cash management.

For the purpose of the statement of net assets available for benefits, cash at banks comprise cash at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised on the following bases:

Interest income is recognised on an accrual basis using the effective interest rate method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset. Interest income on bank deposits is disclosed separately on the face of the statement of profit or loss and other comprehensive income. Interest income on debt securities is included in gains on investments.

Distribution income is recognised when the Scheme's right to receive payment has been established. Distribution income relating to exchange-traded equity investments is recognised in profit or loss as distribution income when declared. Distribution income from private equity investments and other investment funds are recognised in profit or loss as distribution income when declared.

Realised and unrealised gains and losses on investments at fair value through profit or loss are dealt with in profit or loss in the year in which they arise.

Expenses

All expenses, including investment management and custodian fees, are recognised in profit or loss on an accrual basis.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Scheme's functional and presentation currency. Foreign currency transactions are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on retranslation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

Related parties

A party is considered to be related to the Scheme if:

- (a) the party is a person or a close member of that person's family and that person:
 - (i) has control or joint control over the Scheme;
 - (ii) has significant influence over the Scheme;
 - (iii) is a member of the key management personnel of the Trustee or of a parent of the Trustee;

or

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

A party is considered to be related to the Scheme if: (continued)

- (b) the party is an entity where any of the following conditions applies:
- (i) the entity and the Scheme are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Scheme are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Scheme or an entity related to the Scheme;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a Scheme of which it is a part, provides key management personnel services to the Scheme or to the parent of the Scheme.

Units in issue

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

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

- it entitles the holder to a pro rata share of the Scheme's net assets in the event of its liquidation;
- it is in the class of instruments that is subordinate to all other classes of instruments;
- all financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features;
- apart from the contractual obligation for the Scheme to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any other features that would require classification as a liability; and
- the total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Scheme over the life of the instrument.

The redeemable units do not provide the unitholders with the right to require redemption for cash at a value proportionate to the unitholders' share in the Scheme's net assets at each daily redemption date and also in the event of the Scheme's liquidation. Therefore, they do not meet the criteria for equity classification and therefore are classified as financial liabilities. They are measured at the present value of the redemption amounts.

3. INTEREST INCOME

This represents interest earned from the receipt of cleared funds before the acquisition of units. Any interest earned belongs to the Scheme.

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4. GAINS AND LOSSES ON INVESTMENTS

	2019																Total HK\$
	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal Guaranteed Fund HK\$	Principal - Hang Seng Index Tracking Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$		
Realised gains	2,186,833	75,664,207	9,630,196	4,844,972	10,944,181	86,960,100	1,627,524	351,264,160	32,174,486	28,058,139	117,674,150	42,384,640	4,545,268	14,687,528	38,350,893	820,997,277	
Unrealised gains/(losses)	10,113,367	209,588,726	3,516,320	40,835,153	(2,616,891)	49,352,256	18,693,207	197,074,942	208,676,405	116,370,612	323,592,833	82,538,836	33,803,466	14,593,570	107,734,214	1,413,867,016	
Net gains on investments	<u>12,300,200</u>	<u>285,252,933</u>	<u>13,146,516</u>	<u>45,680,125</u>	<u>8,327,290</u>	<u>136,312,356</u>	<u>20,320,731</u>	<u>548,339,102</u>	<u>240,850,891</u>	<u>144,428,751</u>	<u>441,266,983</u>	<u>124,923,476</u>	<u>38,348,734</u>	<u>29,281,098</u>	<u>146,085,107</u>	<u>2,234,864,293</u>	
	2018																Total HK\$
	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal Guaranteed Fund HK\$	Principal - Hang Seng Index Tracking Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$		
Realised gains/(losses)	259,236	111,759,168	8,591,788	2,470,923	1,243,347	52,294,597	(1,784,523)	196,662,413	62,949,655	55,603,807	202,592,485	52,302,156	9,137,246	11,988,270	50,945,161	817,015,729	
Unrealised gains/(losses)	(1,342,521)	(306,662,879)	1,308,304	(16,158,532)	(826,340)	(147,205,475)	(942,492)	(434,370,740)	(222,385,323)	(223,456,556)	(537,632,459)	(95,571,092)	(64,839,409)	8,989,260	(115,614,360)	(2,156,710,614)	
Net gains/(losses) on investments	<u>(1,083,285)</u>	<u>(194,903,711)</u>	<u>9,900,092</u>	<u>(13,687,609)</u>	<u>417,007</u>	<u>(94,910,878)</u>	<u>(2,727,015)</u>	<u>(237,708,327)</u>	<u>(159,435,668)</u>	<u>(167,852,749)</u>	<u>(335,039,974)</u>	<u>(43,268,936)</u>	<u>(55,702,163)</u>	<u>20,977,530</u>	<u>(64,669,199)</u>	<u>(1,339,694,885)</u>	

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5. RELATED PARTY TRANSACTIONS

Prior to 1 April 2019, the management fee payable under the Scheme includes fees paid to the Trustee, Administrator, Sponsor and Investment Manager of the Scheme. In order to fulfil requirements set out by the Mandatory Provident Fund Authority ("MPFA") to separate and disclose fees by entity performing key roles. With effect from 1 April 2019, all fee types are disclosed separately based on the roles and responsibility of the relevant Principal Hong Kong entities. These different parties have been listed in the directory of parties on page 1.

Due to fee restructure exercise, the amounts presented in these financial statements and related notes for the year are not entirely comparable with the amounts presented for the year ended 31 December 2018.

The following is a summary of transactions with related parties during the year which were entered into in the ordinary course of business and on normal commercial terms:

(a) The breakdown of the fee rates of each of the Constituent Funds is as follows:

	Constituent Fund Level (% p.a. of net assets value)					
	2019				2018	
	Sponsor Fee		Trustee and Administrator Fee	Investment management Fee	Maximum aggregate management fee	Maximum aggregate management fee
	Current	Maximum	Current	Current		
Principal – MPF Conservative Fund	0.25	1.50	0.57	0.11 - 0.13	4.00	0.99
Principal Growth Fund	0.25	1.50	0.99	0.33 - 0.35	4.00	1.59
Principal Balanced Fund	0.25	1.50	0.99	0.33 - 0.35	4.00	1.59
Principal Stable Fund	0.25	1.50	0.99	0.33 - 0.35	4.00	1.59
Principal Cash Fund	0.25	1.50	0.53	0.11 - 0.13	4.00	0.95
Principal Guaranteed Fund	Nil	1.50	Nil	Nil	2.00	Nil
Principal Dynamic Global Equity Fund	0.25	1.50	1.00	0 - 0.50	2.00	1.75
Principal Dynamic Asia Pacific Equity Fund	0.25	1.50	1.00	0 - 0.50	2.00	1.75
Principal Dynamic Global Bond Fund	0.25	1.50	0.77	0 - 0.47	2.00	1.49
Principal Dynamic Greater China Equity Fund	0.25	1.50	0.64	0 - 0.48	3.20	1.37
Principal Dynamic Asian Bond Fund	0.25	1.50	0.65	0 - 0.43	3.20	1.33
Principal Dynamic Hong Kong Equity Fund	0.25	1.50	0.86	0 - 0.48	2.00	1.59
Principal – Hang Seng Index Tracking Fund	0.25	1.50	0.58	0.06	2.00	0.99
Principal Core Accumulation fund	Nil	N/A	0.50	0.25	N/A	0.75
Principal Age 65 Plus Fund	Nil	N/A	0.50	0.25	N/A	0.75

The above fee types are accrued daily, calculated on each dealing day and is paid monthly in arrears.

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NOTES TO FINANCIAL STATEMENTS

31 December 2019

5. RELATED PARTY TRANSACTIONS (continued)

- (b) Prior to 1 April 2019, the management fee payable under the Scheme includes fees paid to the Trustee, Administrator, Sponsor and Investment Manager of the Scheme. With effect from 1 April 2019, fee paid to relevant parties are presented as separate line items as noted in (c) to (i).
- (c) The Trustee collects contributions in accordance with the rules of the Scheme and invests the contributions in the Constituent Funds. The trustee is also the scheme administrator handling the daily administration work of the Scheme. Including to keep records of the Scheme, handling requests for transfers or withdrawal of accrued benefits and providing other customer services to enrolled employers and scheme members.
- (d) All investments held by each Constituent Fund were managed by the Investment Manager.
- (e) Operating expenses are paid by the Administrator and then recharged to the Constituent Funds.
- (f) 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.
- (g) For the years ended 31 December 2019 and 2018, the Constituent Funds did not have any transactions with any of the Investment Manager's associates or delegates.
- (h) The transactions with related parties as stated above are within the definition of transactions with associates in accordance with the MPF Ordinance and MPF Guideline II.4 Annex C I (D) 2.

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5. RELATED PARTY TRANSACTIONS (continued)

(i) At year end, the fee expense and amounts payable to the related parties were:

	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal Guaranteed Fund HK\$	Principal - Hang Seng Index Tracking Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$
For the year ended 31 December 2019															
Investment management fee	260,708	5,064,584	470,947	588,351	528,836	2,467,234	1,012,543	6,964,231	2,988,319	4,137,369	6,805,467	-	205,858	1,154,394	3,842,454
Management fee	196,264	7,851,103	1,315,153	466,701	501,663	3,162,575	1,033,862	8,719,950	2,638,590	4,590,780	10,530,965	-	938,645	3,285,786	5,899,401
Sponsor fee	-	3,836,806	1,070,335	-	323,070	1,542,021	649,066	4,374,252	1,642,294	2,200,728	5,155,657	-	858,061	2,623,622	2,910,950
Trustee and administrator fee	521,416	15,193,753	2,440,364	1,176,703	839,982	6,168,086	1,999,124	17,497,006	4,204,274	7,570,506	20,416,402	-	1,990,701	6,401,638	11,527,360
As at 31 December 2019															
Investment management fee payable	39,593	673,571	62,396	87,035	76,002	335,242	141,971	967,783	421,217	541,040	910,965	-	-	195,897	507,894
Sponsor fee payable	-	501,281	141,809	-	44,187	209,526	91,007	604,864	231,488	287,787	690,125	-	116,579	445,222	384,768
Trustee and administrator fee payable	79,186	2,020,713	323,325	174,070	114,886	838,104	280,301	2,419,458	592,610	989,989	2,732,897	-	270,464	1,086,342	1,523,683
For the year ended 31 December 2018															
Management fee	604,657	33,878,560	5,069,351	1,532,545	1,892,964	16,482,427	5,099,822	46,147,674	11,379,273	19,843,513	46,338,379	-	3,587,307	14,034,374	24,575,668
As at 31 December 2018															
Management fee payable	62,443	2,578,120	450,221	213,168	164,335	442,402	117,540	1,270,262	822,668	1,459,746	3,423,708	-	297,313	1,119,594	1,967,222

PRINCIPAL MPF - SMART PLAN

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5. RELATED PARTY TRANSACTIONS (continued)

(j) During the year, Sponsor, Franklin Templeton Investments (Asia) Limited ("Templeton Manager") and FIL Investment Management (Hong Kong) Limited ("Fidelity Manager") rebate any amount of the management fee exceeding the agreed scale. The management fee rebates received and receivable from these parties were as follows:

	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal Guaranteed Fund HK\$	Principal - Hang Seng Index Tracking Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$
For the year ended 31 December 2019															
Management fee rebate	-	-	-	-	42,499	118,340	71,832	289,780	-	-	-	-	-	-	-
For the year ended 31 December 2018															
Management fee rebate	-	-	-	-	23,421	8,036,422	3,088,127	21,821,260	146,025	119,499	-	-	-	-	-

PRINCIPAL MPF - SMART PLAN

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6. INVESTMENT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

		2019															Total	
Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal Guaranteed Fund HK\$	Principal Hang Seng Index Tracking Fund HK\$	Principal Conservative Fund HK\$	Principal Stable Fund HK\$	Total HK\$			
Collective investment schemes																		
Listed securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	486,804,252	-	-	486,804,252
Unit trust	163,147,716	2,096,653,217	564,755,404	358,659,420	173,158,892	866,614,906	367,424,516	2,496,287,988	961,764,797	1,193,972,201	2,846,582,528	3,325,389,955	-	1,415,458,304	1,569,131,138	18,399,000,982		
Total	163,147,716	2,096,653,217	564,755,404	358,659,420	173,158,892	866,614,906	367,424,516	2,496,287,988	961,764,797	1,193,972,201	2,846,582,528	3,325,389,955	486,804,252	1,415,458,304	1,569,131,138	18,885,805,234		
		2018															Total	
Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal Guaranteed Fund HK\$	Principal Hang Seng Index Tracking Fund HK\$	Principal Conservative Fund HK\$	Principal Stable Fund HK\$	Total HK\$			
Collective investment schemes																		
Listed securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	391,085,264	-	-	391,085,264
Unit trust	99,001,464	1,919,502,351	567,365,157	229,627,335	149,375,520	742,175,601	303,019,608	2,047,296,124	704,542,335	1,075,078,136	2,539,607,938	3,257,263,868	-	1,356,855,609	1,474,765,886	16,465,476,932		
Total	99,001,464	1,919,502,351	567,365,157	229,627,335	149,375,520	742,175,601	303,019,608	2,047,296,124	704,542,335	1,075,078,136	2,539,607,938	3,257,263,868	391,085,264	1,356,855,609	1,474,765,886	16,856,562,196		

PRINCIPAL MPF - SMART PLAN

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31 December 2019

7. CASH AND CASH EQUIVALENTS

2019																	
	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal Guaranteed Fund HK\$	Principal - Hang Seng Index Tracking Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$	Scheme Level HK\$	Total HK\$
Cash at banks	-	-	-	-	1,591,510	-	-	-	-	-	-	-	2,203,599	-	-	57,744,604	61,539,713
2018																	
	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal Guaranteed Fund HK\$	Principal - Hang Seng Index Tracking Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$	Scheme Level HK\$	Total HK\$
Cash at banks	-	-	-	-	-	-	-	-	-	-	-	-	154,338	-	-	26,813,129	26,967,467

PRINCIPAL MPF - SMART PLAN

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8. UNITS IN ISSUE

	2019														
	Principal Age 65 Plus Fund	Principal Balanced Fund	Principal Cash Fund	Principal Core Accumulation Fund	Principal Dynamic Asian Bond Fund	Principal Dynamic Asia Pacific Equity Fund	Principal Dynamic Global Bond Fund	Principal Dynamic Global Equity Fund	Principal Dynamic Greater China Equity Fund	Principal Dynamic Hong Kong Equity Fund	Principal Growth Fund	Principal Guaranteed Fund	Principal - Hang Seng Index Tracking Fund	Principal - MPF Conservative Fund	Principal Stable Fund
Balance at 1 January 2019	9,859,642.3258	111,862,944.1968	50,375,287.5899	22,593,044.5334	15,370,387.2545	61,319,365.7094	32,780,620.9019	172,129,554.2623	47,635,198.7100	96,552,324.2550	143,674,215.8866	N/A	33,362,444.8478	124,762,169.9924	93,552,763.4107
Issued during the year	9,146,848.8927	16,096,670.1264	24,031,038.1794	16,069,058.3396	8,014,743.0801	14,111,076.0817	16,520,588.9281	26,037,216.3751	20,675,903.0206	27,755,411.9560	22,436,392.6267	N/A	27,783,471.4837	49,170,229.7027	16,463,424.3295
Redeemed during the year	(4,188,288.3694)	(20,126,591.1388)	(24,068,555.8731)	(8,156,400.5527)	(6,099,758.5235)	(13,931,110.4065)	(11,114,891.0057)	(30,936,526.7685)	(18,735,809.4551)	(28,495,149.5792)	(27,161,192.0805)	N/A	(23,806,297.6846)	(45,179,201.9290)	(17,971,632.4939)
Balance at 31 December 2019	<u>14,818,202.8491</u>	<u>107,833,023.1844</u>	<u>50,337,769.8962</u>	<u>30,505,702.3203</u>	<u>17,285,371.8111</u>	<u>61,499,331.3846</u>	<u>38,186,318.8243</u>	<u>167,230,243.8689</u>	<u>49,575,292.2755</u>	<u>95,812,586.6318</u>	<u>138,949,416.4328</u>	<u>N/A</u>	<u>37,339,618.6469</u>	<u>128,753,197.7661</u>	<u>92,044,555.2463</u>
	2018														
	Principal Age 65 Plus Fund	Principal Balanced Fund	Principal Cash Fund	Principal Core Accumulation Fund	Principal Dynamic Asian Bond Fund	Principal Dynamic Asia Pacific Equity Fund	Principal Dynamic Global Bond Fund	Principal Dynamic Global Equity Fund	Principal Dynamic Greater China Equity Fund	Principal Dynamic Hong Kong Equity Fund	Principal Growth Fund	Principal Guaranteed Fund	Principal - Hang Seng Index Tracking Fund	Principal - MPF Conservative Fund	Principal Stable Fund
Balance at 1 January 2018	5,144,733.8403	115,663,211.3644	44,510,950.3969	14,713,503.5695	12,653,709.8884	65,250,671.2432	29,238,070.3315	182,210,071.3676	45,925,103.9280	102,086,005.7232	153,338,610.4069	N/A	29,922,481.5286	113,203,467.8235	93,942,966.1701
Issued during the year	7,734,956.1995	21,086,438.6861	31,898,578.7729	14,338,740.6938	9,963,424.9002	16,902,975.2624	15,723,364.6368	28,959,686.3458	24,425,418.8024	32,135,676.4662	26,711,875.6135	N/A	29,498,677.0421	62,561,073.1281	24,304,924.8451
Redeemed during the year	(3,020,047.7140)	(24,886,705.8537)	(26,034,241.5799)	(6,459,199.7299)	(7,246,747.5341)	(20,834,280.7962)	(12,180,814.0664)	(39,040,203.4511)	(22,715,324.0204)	(37,669,357.9344)	(36,376,270.1338)	N/A	(26,058,713.7229)	(51,002,370.9592)	(24,695,127.6045)
Balance at 31 December 2018	<u>9,859,642.3258</u>	<u>111,862,944.1968</u>	<u>50,375,287.5899</u>	<u>22,593,044.5334</u>	<u>15,370,387.2545</u>	<u>61,319,365.7094</u>	<u>32,780,620.9019</u>	<u>172,129,554.2623</u>	<u>47,635,198.7100</u>	<u>96,552,324.2550</u>	<u>143,674,215.8866</u>	<u>N/A</u>	<u>33,362,444.8478</u>	<u>124,762,169.9924</u>	<u>93,552,763.4107</u>

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9. CONTRIBUTIONS RECEIVED AND RECEIVABLE

Contributions received and receivable in the statement of changes in net assets available for benefits are derived from the followings:

	2019 HK\$	2018 HK\$
From employers		
- mandatory	591,758,846	622,775,336
- additional voluntary	319,445,164	317,163,457
From members		
- mandatory	518,683,782	550,525,688
- additional voluntary	23,586,359	24,597,353
	<u>1,453,474,151</u>	<u>1,515,061,834</u>
Transfer in from		
- other schemes	474,794,515	781,459,937
- same scheme	879,525,452	945,338,190
	<u>1,354,319,967</u>	<u>1,726,798,127</u>
Switching in	1,739,287,597	2,287,976,202
Others	42,412,332	47,158,499
Proceeds on issue of units	<u>4,589,494,047</u>	<u>5,576,994,662</u>

10. WITHDRAWALS PAID AND PAYABLE

Withdrawals paid and payable in the statement of changes in net assets available for benefits are derived from the following:

	2019 HK\$	2018 HK\$
Benefits	433,989,777	372,194,951
Transfers out	2,365,929,984	2,865,969,398
Forfeitures	33,102,248	40,565,358
Switching out	1,739,291,946	2,287,976,202
Others	1,283,102	1,780,412
	<u>4,573,597,057</u>	<u>5,568,486,321</u>
Payments on redemption of units	<u>4,573,597,057</u>	<u>5,568,486,321</u>

11. TAXATION

The Scheme is not subject to Hong Kong Profits tax as it is not considered to be carrying on a business in Hong Kong. Reconciliations of the tax expense/credit applicable to income/loss for the year using the statutory rate to tax expense/credit at the effective tax rate have not been presented as the income/loss of the Scheme is not subject to tax.

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12. SOFT COMMISSION ARRANGEMENTS

Neither the Trustee, the Administrator, the Investment Manager nor any of its connected persons may retain cash or other rebates from a broker or dealer in consideration of directing transactions in the investments of the Constituent Funds to the broker or dealer, save that goods and services may be retained within the limitations set out by the Hong Kong Securities and Futures Commission. Those permissible goods and services must be, among other things, of demonstrable benefit to the members 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. The Trustee, the Administrator and the Investment Manager did not enter into any soft commission arrangements for the years ended 31 December 2019 and 2018.

13. FEES, CHARGES AND EXPENSES

Each constituent fund, bears certain fees, charges and expenses which are directly attributable to it and indirect charges and expenses in proportion to its respective net asset value.

Only certain fees, charges and expenses of Principal - MPF Conservative Fund would only be reduced if the return of the fund for a particular month is less than the prescribed savings rate published by the Mandatory Provident Fund Schemes Authority.

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14. PAYMENTS CHARGED TO DEFAULT INVESTMENT STRATEGY CONSTITUENT FUNDS

Year ended 31 December 2019

	Principal Age 65 Plus Fund		Principal Core Accumulation Fund	
	HK\$	% of net assets#	HK\$	% of net assets#
Payments for out-of-pocket expenses				
- Auditor's fees	2,208		5,304	
- Bank charges	1,236		2,801	
- Legal and professional fees	3,453		7,626	
- Miscellaneous expenses	21,302		14,497	
- Printing and postage expenses	9,419		24,066	
	<u>37,618</u>	0.03	<u>54,294</u>	0.02
Payments for service				
- Investment management fee	260,708		588,351	
- Management fee	196,264		466,701	
- Trustee and Administrator fee	521,416		1,176,703	
	<u>978,388</u>		<u>2,231,755</u>	
Other payments				
- Legal and professional fees (non-recurring)	20,157		60,570	
	<u>1,036,163</u>		<u>2,346,619</u>	

Year ended 31 December 2018

	Principal Age 65 Plus Fund		Principal Core Accumulation Fund	
	HK\$	% of net assets#	HK\$	% of net assets#
Payments for out-of-pocket expenses				
- Auditor's fees	2,343		5,304	
- Bank charges	797		2,005	
- Miscellaneous expenses	35,685		61,372	
- Printing and postage expenses	9,138		23,347	
	<u>47,963</u>	0.06	<u>92,028</u>	0.04
Payments for service				
- Management fee	604,657		1,532,545	
Other payments				
- Legal and professional fees (non-recurring)	40,314		121,140	
	<u>692,934</u>		<u>1,745,713</u>	

The net asset value used for calculating the percentage of out-of-pocket expenses is the sum of the net asset value of the relevant DIS constituent fund as at the last dealing day of each month of the relevant year divided by 12.

PRINCIPAL MPF - SMART PLAN

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15. MARKETING EXPENSES

There were no advertising expenses, promotional expenses, commissions or brokerage fees payable to the MPF intermediaries of the Scheme deducted from the Constituent Funds during the year ended 31 December 2019 and 2018.

16. BANKING FACILITIES, BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

The Scheme had no bank loans, overdrafts or other borrowings as at 31 December 2019 and 2018.

17. COMMITMENTS

The Scheme had no commitments as at 31 December 2019 and 2018.

18. CONTINGENT LIABILITIES

The Scheme had no contingent liabilities as at 31 December 2019 and 2018.

19. NEGOTIABILITY OF ASSETS

At 31 December 2019 and 2018, there was no statutory or contractual requirement restricting the negotiability of the assets of the Scheme.

20. MARKET VALUE ADJUSTMENT

Market value adjustment represents the reduction amount in the redemption proceeds payable to members of the Scheme who have invested in Principal Guaranteed Fund. The rate of reduction is determined and applied by Principal Insurance Company (Hong Kong) Limited ("Sponsor") having regard to various factors including market condition, the level of guarantee being provided by the Sponsor and the market value of the underlying assets of the Principal Guaranteed Fund Policy ("Fund"). The rate of reduction will not exceed 5% (or such higher percentage as decided by the Sponsor with the approval of the Mandatory Provident Fund Schemes Authority) of the account balance (or the relevant part of the account balance) of the member in the Fund.

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21. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

	2019			2018		
	At fair value through profit or loss	At amortised cost	Total	At fair value through profit or loss	At amortised cost	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Investments measured at fair value through profit or loss	18,885,805,234	-	18,885,805,234	16,856,562,196	-	16,856,562,196
Contributions receivable	-	116,570,363	116,570,363	-	122,008,074	122,008,074
Subscriptions in transit	-	102,293,914	102,293,914	-	47,537,718	47,537,718
Accounts receivable	-	52,101,024	52,101,024	-	72,063,486	72,063,486
Cash and cash equivalents	-	61,539,713	61,539,713	-	26,967,467	26,967,467
Others	-	563,227	563,227	-	2,043,279	2,043,279
	<u>18,885,805,234</u>	<u>333,068,241</u>	<u>19,218,873,475</u>	<u>16,856,562,196</u>	<u>270,620,024</u>	<u>17,127,182,220</u>

Financial liabilities

	2019	2018
	At amortised cost	At amortised cost
	HK\$	HK\$
Amounts pending for allocation	41,518,783	7,920,326
Amounts payable on redemptions	83,625,537	106,180,381
Amounts payable to brokers	23,154,666	6,319,252
Accounts payable and accruals	28,696,950	15,665,973
	<u>176,995,936</u>	<u>136,085,932</u>

22. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The major methods and assumptions used in estimating the fair values of financial instruments in accordance with the accounting policy, stated in note 2.4, are disclosed below:

The carrying amounts of all the Constituent Funds' financial assets and financial liabilities at the year end date approximated their fair values. For the Investment Funds, the fair values are based on their latest NAV per unit at the year end date. For other financial instruments, the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments.

During the year ended 31 December 2019, unit trust with a carrying amount of HK\$18,399,000,982 were transferred from level 1 to level 2 within the fair value hierarchy because the fair values of these instruments were based on proprietary pricing models using observable inputs.

At 31 December 2018, all financial instruments of the Scheme carried at fair value were investments in quoted investment funds which fall into Level 1 of the fair value hierarchy.

31 December 2019

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Each Constituent Fund normally invests in one or more investment fund (the "Investment Funds") to get its asset allocation. The Investment Funds can either be equity funds or fixed income funds. Further, these funds may be regional or country specific. The purpose is to achieve the asset allocation in accordance with each Constituent Fund's investment objectives and policies as stated in the offering documents. Since the Constituent Funds derive their value from the value of these Investment Funds, their risk profile is a function of the risks inherent in each Investment Fund. These inherent risks include market risk, credit risk and liquidity risk. The portfolio manager of each Investment Fund uses various tools to manage these risks.

Additionally, there is a risk of under-allocation or over-allocation to one or more of these Investment Funds. While the risk of each Investment Fund is managed at that fund's level, the overall asset allocation of the Constituent Fund is managed within set investment guidelines to ensure that risks taken are in line with investment and risk expectations. The Constituent Fund's exposure to Investment Funds is periodically rebalanced to prevent excessive exposure. Each Constituent Fund that is allowed to invest into more than one Investment Fund has internal guidelines that specify the permissible asset allocation ranges within which portfolio managers of the Investment Fund operate.

The Scheme offers a wide range of investment choices to investors to allow them the flexibility of choosing the desired risk profile for their investments.

(a) Market risk

Market risk embodies the potential for both loss and gain and includes currency risk, interest rate risk and other price risk. The Constituent Funds solely invest in Investment Funds which are denominated in Hong Kong dollars, their functional currency. So, the direct currency risk and interest rate risk are not significant. There are inherent risks in the Investment Funds level.

To control the risk of the Investment Funds, investment decisions for these funds are based on a risk/reward analysis, with the adoption of diversification policies. Investment decisions are taken in accordance with the investment objectives of the concerned portfolios so that unwarranted deviations (risks) are controlled.

The Investment Funds are also subject to the risk of concentration of investments in issuers located in a particular country or region which may be susceptible to adverse securities markets, exchange rates and social, political, regulatory or economic events which may occur in that country or region.

Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Since all financial assets and liabilities of the Scheme and the Constituent Funds are denominated in Hong Kong dollars, the Scheme and the Constituent Funds are not exposed to any currency risk.

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23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Market risk (continued)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Scheme is exposed to a minimal interest rate risk as the Scheme invests mainly in the Constituent Funds and only the Scheme's cash and deposits at banks are exposed to interest rate risk which is considered to be minimal.

The Constituent Fund - Principal - Hang Seng Index Tracking Fund is exposed to minimal interest rate risk as it invests mainly approved Index - Tracking and Tracker Fund of Hong Kong, and only the Constituent Fund's cash and deposits at banks are exposed to interest rate risk which is considered to be minimal.

Other price risk

Other price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment (stock-specific) or its issuer, or factors affecting all instruments (generic risks) traded in the market.

The choice of Investment Funds is based on the Investment Manager's views on the suitability of a particular Investment Fund in achieving the asset allocation profile of that Constituent Fund. There is a constant review of such Investment Funds in order to provide the Constituent Funds with more investment options to help achieve their target allocations. The performance of each Investment Fund is monitored regularly, as in the normal course of investment operations in consideration of the overall market risks including foreign currency risks, interest rate risks and other price risks. When their performance is found to be below expectations, the portfolio manager takes appropriate action.

Each Constituent Fund derives its other price risk from each of the Investment Funds that it invests into. Such other price risk of these Investment Funds can be mitigated by constructing a diversified portfolio of investments i.e. diversified on asset class or geographies (global vs country specific) or both. The portfolio manager of the Investment Funds manages such risks by regularly monitoring portfolio exposures, both on an absolute basis and relative to underlying benchmarks, if any. For example, if an Investment Fund benchmark has an exposure of x% in a particular stock and of y% in a particular country, the portfolio manager may manage exposure to that stock in his portfolio within $x\pm 10\%$ and to the country at $y\pm 10\%$. Other risks relating to liquidity, sector exposures etc. are also managed in a similar manner. However, it should be noted that while diversification does mitigate risks, diversification benefits may not be visible in the short-term, especially when market volatility increases.

PRINCIPAL MPF - SMART PLAN

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23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Market risk (continued)

Other price risk sensitivity analysis

As at year end, the overall market exposures of each Constituent Fund were as follows. An increase in prices of the Investment Funds at the year end would have increased the NAV of the respective Constituent Funds and the change in net assets available for benefits by the amounts shown below. An equal change in the opposite direction would have decreased the NAV by an equal but opposite amount. The analysis is performed on the same basis for 2018.

	2019														
	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal Guaranteed Fund HK\$	Principal - Hang Seng Index Tracking Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$
Overall market exposure	163,147,716	2,096,653,217	564,755,404	358,659,420	173,158,892	866,614,906	367,424,516	2,496,287,988	961,764,797	1,193,972,201	2,846,582,528	3,325,389,955	486,804,252	1,415,458,304	1,569,131,138
% change in prices	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Change in NAV	<u>16,314,772</u>	<u>209,665,322</u>	<u>56,475,540</u>	<u>35,865,942</u>	<u>17,315,889</u>	<u>86,661,491</u>	<u>36,742,452</u>	<u>249,628,799</u>	<u>96,176,480</u>	<u>119,397,220</u>	<u>284,658,253</u>	<u>332,538,996</u>	<u>48,680,425</u>	<u>141,545,830</u>	<u>156,913,114</u>
	2018														
	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal Guaranteed Fund HK\$	Principal - Hang Seng Index Tracking Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$
Overall market exposure	99,001,464	1,919,502,351	567,365,157	229,627,335	149,375,520	742,175,601	303,019,608	2,047,296,124	704,542,335	1,075,078,136	2,539,607,938	3,257,263,868	391,085,264	1,356,855,609	1,474,765,886
% change in prices	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Change in NAV	<u>9,900,146</u>	<u>191,950,235</u>	<u>56,736,516</u>	<u>22,962,734</u>	<u>14,937,552</u>	<u>74,217,560</u>	<u>30,301,961</u>	<u>204,729,612</u>	<u>70,454,234</u>	<u>107,507,814</u>	<u>253,960,794</u>	<u>325,726,387</u>	<u>39,108,526</u>	<u>135,685,561</u>	<u>147,476,589</u>

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23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Scheme.

The Scheme is exposed to risk on the creditability of the issuers of the funds and the banks. The Scheme limits its exposure by using funds' issuers and banks with high credit ratings.

Each Constituent Fund of the Scheme is a feeder fund and invests in unit trusts/listed security managed by appointed investment managers with high credit ratings. Principal Insurance Company (Hong Kong) Limited, which is the guarantor of the Principal Guaranteed Fund Policy, is a member of the worldwide Principal Finance Group with a high credit rating.

The Scheme also manages its credit risk by placing deposits at Citibank, N.A., which has high credit rating.

Financial assets subject to HKFRS 9's impairment requirements

The Scheme's financial assets subject to the ECL model within HKFRS 9 are only short-term trade receivables, cash and cash equivalent and others. At 31 December 2019, the total of short-term trade receivables, cash and cash equivalent and others was HK\$333,068,241 on which no loss allowance had been provided (31 December 2018: total of HK\$270,620,024 on which no loss had been incurred). There is not considered to be any concentration of credit risk within these assets. No assets are considered impaired and no amounts have been written off in the period.

All trade receivables are expected to be received in three months or less. An amount is in default if it has not been received 30 days after it is due.

As trade receivables are impacted by the HKFRS 9 ECL model, the Scheme has adopted the simplified approach. The loss allowance is therefore based on lifetime ECLs.

In calculating the loss allowance, a provision matrix has been used based on historical observed loss rates over the expected life of the receivables adjusted for forward-looking estimates. Items have been grouped by their nature into the following categories: contributions receivable, subscriptions in transit and accounts receivable.

Financial assets not subject to HKFRS 9's impairment requirements

The Scheme is exposed to credit risk on debt instruments, money market funds and similar securities. These classes of financial assets are not subject to HKFRS 9's impairment requirements as they are measured at FVPL. The carrying value of these assets, under HKFRS 9 represents the Scheme's maximum exposure to credit risk on financial instruments not subject to the HKFRS 9 impairment requirements on the respective reporting dates. Hence, no separate maximum exposure to credit risk disclosure is provided for these instruments.

PRINCIPAL MPF - SMART PLAN

NOTES TO FINANCIAL STATEMENTS

31 December 2019

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Liquidity risk

The Scheme provides the members with the right to redeem their benefits for cash equal to their proportionate share of the net asset value of the Scheme through their interests in the Constituent Funds under certain circumstances in accordance with the Mandatory Provident Fund Schemes Ordinance. The Scheme is therefore potentially exposed to benefit payment obligations to the members. As such, the Scheme and all Constituent Funds invest in the underlying investments that are readily disposed of in order to meet the benefit payments as needed.

The following table analyses the Scheme's and Constituent Funds' financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

Constituent Funds

At 31 December 2019

	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$
Non-derivative financial liabilities								
<u>Less than 1 month</u>								
Amounts payable on redemptions	631,444	6,322,103	10,871,965	435,521	4,119,151	2,532,263	1,569,816	8,173,652
Amounts payable to brokers	1,724,658	1,067,292	3,321,805	924,993	418,829	764,706	1,380,483	2,539,333
Accounts payable and accruals	238,690	3,724,920	668,796	546,620	273,744	1,543,877	581,489	4,439,422
<u>Repayable on demand</u>								
Net assets available for benefits	<u>163,696,265</u>	<u>2,096,362,149</u>	<u>576,305,967</u>	<u>361,291,721</u>	<u>175,298,120</u>	<u>867,122,440</u>	<u>372,392,489</u>	<u>2,495,051,380</u>
	<u>166,291,057</u>	<u>2,107,476,464</u>	<u>591,168,533</u>	<u>363,198,855</u>	<u>180,109,844</u>	<u>871,963,286</u>	<u>375,924,277</u>	<u>2,510,203,787</u>
	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal Guaranteed Fund HK\$	Principal - Hang Seng Index Tracking Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$	Total HK\$
Non-derivative financial liabilities								
<u>Less than 1 month</u>								
Amounts payable on redemptions	3,381,942	7,141,370	9,337,219	-	4,279,075	7,621,428	4,187,639	70,604,588
Accounts payable to brokers	1,353,267	819,784	2,303,193	-	2,029,927	3,124,341	1,382,055	23,154,666
Accounts payable and accruals	1,395,188	2,055,536	4,877,410	-	624,642	1,803,628	2,718,116	25,492,078
<u>Repayable on demand</u>								
Net assets available for benefits	<u>970,985,299</u>	<u>1,193,848,991</u>	<u>2,844,384,698</u>	<u>3,325,389,955</u>	<u>489,754,905</u>	<u>1,422,514,895</u>	<u>1,570,907,902</u>	<u>18,925,307,176</u>
	<u>977,115,696</u>	<u>1,203,865,681</u>	<u>2,860,902,520</u>	<u>3,325,389,955</u>	<u>496,688,549</u>	<u>1,435,064,292</u>	<u>1,579,195,712</u>	<u>19,044,558,508</u>

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23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Liquidity risk (continued)

Constituent Funds (continued)

At 31 December 2018

	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$
Non-derivative financial liabilities								
<u>Less than 1 month</u>								
Amounts payable on redemptions	162,896	9,203,178	9,151,895	415,025	849,092	4,872,829	1,406,332	13,702,507
Amounts payable to brokers	93,760	177,733	2,074,165	72,226	32,080	159,389	1,092,864	448,425
Accounts payable and accruals	126,926	2,716,454	488,469	322,289	174,455	487,077	136,303	1,398,533
<u>Repayable on demand</u>								
Net assets available for benefits	99,265,358	1,918,335,231	568,964,720	229,817,406	149,998,975	741,878,083	303,960,145	2,049,236,766
	<u>99,648,940</u>	<u>1,930,432,596</u>	<u>580,679,249</u>	<u>230,626,946</u>	<u>151,054,602</u>	<u>747,397,378</u>	<u>306,595,644</u>	<u>2,064,786,231</u>

	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal Guaranteed Fund HK\$	Principal - Hang Seng Index Tracking Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$	Total HK\$
Non-derivative financial liabilities								
<u>Less than 1 month</u>								
Amounts payable on redemptions	3,019,901	3,174,126	14,519,465	-	3,841,567	14,387,104	8,631,333	87,337,250
Accounts payable to brokers	672,788	86,388	931,300	-	-	223,103	255,031	6,319,252
Accounts payable and accruals	863,838	1,525,498	3,578,292	-	351,707	1,392,187	2,054,273	15,616,301
<u>Repayable on demand</u>								
Net assets available for benefits	707,324,988	1,076,376,599	2,537,844,075	3,257,263,868	391,072,207	1,363,235,894	1,474,513,899	16,869,088,214
	<u>711,881,515</u>	<u>1,081,162,611</u>	<u>2,556,873,132</u>	<u>3,257,263,868</u>	<u>395,265,481</u>	<u>1,379,238,288</u>	<u>1,485,454,536</u>	<u>16,978,361,017</u>

PRINCIPAL MPF - SMART PLAN

NOTES TO FINANCIAL STATEMENTS

31 December 2019

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Liquidity risk (continued)

The Scheme

	<u>Repayable on demand</u> HK\$	<u>Less than 1 month</u> HK\$
At 31 December 2019		
Amounts pending for allocation	-	41,518,783
Amounts payable on redemptions	-	13,020,949
Accounts payable and accruals	-	3,204,872
Net assets available for benefits	<u>116,570,363</u>	<u>-</u>
	<u>116,570,363</u>	<u>57,744,604</u>
	<u>Repayable on demand</u> HK\$	<u>Less than 1 month</u> HK\$
At 31 December 2018		
Amounts pending for allocation	-	7,920,326
Amounts payable on redemptions	-	18,843,131
Accounts payable and accruals	-	49,672
Net assets available for benefits	<u>122,008,074</u>	<u>-</u>
	<u>122,008,074</u>	<u>26,813,129</u>

(d) Specific instruments

Derivatives

The Investment Manager does not intend to enter into any financial futures contracts, financial options contracts nor derivatives transactions at the Constituent Fund level. The underlying Investment Funds may trade in forward contracts for hedging purpose, currency forwards to settle transactions and exposure to warrants arising mainly from corporate actions relating to underlying securities.

PRINCIPAL MPF - SMART PLAN

NOTES TO FINANCIAL STATEMENTS

31 December 2019

24. EVENTS AFTER REPORTING PERIOD

The novel coronavirus outbreak since early 2020 has brought additional uncertainties in the Trustee's and the Investment Manager's operating environment. It has had impacts on the operation of businesses in some industries and the overall market economic environment, which may have adversely affected the quality of investment assets and the investment return of the Unitholders. The level of impact will depend on how the situation will evolve, the duration and the effectiveness of the control measures taken. The Trustee and the Investment Manager will keep its contingency measures and risk management under review as the situation evolves. Under current situation, the Trustee and the Investment Manager considered the impact on liquidity or capital position is minimal.

25. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

26. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Trustee on 19 June 2020.

**Independent auditor's assurance report
To the Trustee of Principal MPF - Smart Plan**

We have audited the financial statements of Principal MPF - Smart Plan (the "Scheme") for the year ended 31 December 2019 in accordance with Hong Kong Standards on Auditing and with reference to Practice Note 860.1(Revised), *The Audit of Retirement Schemes* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and have issued an unqualified auditor's report thereon dated 19 June 2020.

Pursuant to section 102 of the Mandatory Provident Fund Schemes (General) Regulation (the "General Regulation"), we are required to report whether the Scheme complied with certain requirements of the Mandatory Provident Fund Schemes Ordinance (the "Ordinance") and the General Regulation.

Trustee's Responsibility

The General Regulation requires the trustee to ensure that:

- (a) proper accounting and other records are kept in respect of the constituent funds of the Scheme, the Scheme assets and all financial transactions entered into in relation to the Scheme;
- (b) the requirements specified in the guidelines made by the Mandatory Provident Fund Schemes Authority (the "Authority") under section 28 of the Ordinance with respect to forbidden investment practices and the requirements of sections 37(2), 51 and 52 and Part X of, and Schedule 1 to, the General Regulation are complied with; and
- (c) the requirements under sections 34DB(1)(a), (b), (c) and (d), 34DC(1), 34DD(1) and (4) of the Ordinance are complied with; and
- (d) the Scheme assets are not subject to any encumbrance, otherwise than as permitted by the General Regulation.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Independent auditor's assurance report (continued)
To the Trustee of Principal MPF - Smart Plan

Auditor's Responsibility

Our responsibility is to report on the Scheme's compliance with the above requirements based on the results of the procedures performed by us.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), "*Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*" and with reference to Practice Note 860.1 (Revised), *The Audit of Retirement Schemes* issued by the HKICPA. We have planned and performed our work to obtain reasonable assurance on whether the Scheme has complied with the above requirements.

We have planned and performed such procedures as we considered necessary with reference to the procedures recommended on PN 860.1 (Revised), which included reviewing, on a test basis, evidence obtained from the Administrator regarding the Scheme's compliance with the above requirements.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

Based on the foregoing:

1. in our opinion:
 - (a) proper accounting and other records have been kept during the year ended 31 December 2019 in respect of the constituent funds of the Scheme, the Scheme assets and all financial transactions entered into in relation to the Scheme; and
 - (b) the requirements specified in the guidelines made by the Authority under section 28 of the Ordinance with respect to forbidden investment practices and the requirements of sections 37(2), 51 and 52 and Part X of, and Schedule 1 to, the General Regulation have been complied with, in all material respects, as at 31 December 2019, 30 August 2019 and 29 March 2019; and
 - (c) the requirements specified in the Ordinance under sections 34DB(1)(a), (b), (c) and (d) 34DC(1) and 34DD(1) and (4)(a) with respect to the investment of accrued benefits and control of payment for services relating to Principal Core Accumulation Fund and Principal Age 65 Plus Fund have been complied with, in all material respects, as at 31 December 2019, 30 August 2019 and 29 March 2019; and
 - (d) the requirements specified in section 34DD(4)(b) of the Ordinance with respect to the controls of out-of-pocket expenses of the Principal Core Accumulation Fund and Principal Age 65 Plus Fund have been complied with, in all material respects, as at 31 December 2019.
2. as at 31 December 2019, the Scheme assets were not subject to any encumbrance, otherwise than as permitted by the General Regulation.

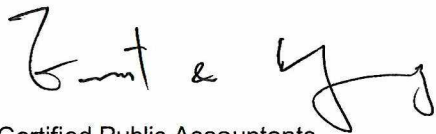
Independent auditor's assurance report (continued)
To the Trustee of Principal MPF - Smart Plan

Other Matter

The requirements specified in the Ordinance under sections 34DI(1) and (2) and 34DK(2) with respect to the transfer of accrued benefits to an account and specified notice, and 34DJ(2), (3), (4) and (5) with respect to locating scheme members relating to Principal Core Accumulation Fund and Principal Age 65 Plus Fund are not applicable to the trustee during the year ended 31 December 2019 as the trustee has completed the relevant transitional provisions. Accordingly, there is no reporting on these sections.

Intended Users and Purpose

This report is intended solely for submission by the Trustee to the Authority pursuant to section 102 of the General Regulation, and is not intended to be, and should not be, used by anyone for any other purpose.



Certified Public Accountants
Hong Kong
19 June 2020