Principal Trust Company (Asia) Limited Retirement Scheme

信步携手 安享退休

WE UNDERSTAND WHAT YOU'RE WORKING FOR℠

Principal

信安

Principal Trust Company (Asia) Ltd.
Shui On Office:
5/F, Shui On Centre
6-8 Harbour Road
Wanchai, Hong Kong
Tel : (852) 2263 0263
Fax : (852) 2827 1707
Website : www.principal.com.hk

4 September 2008

This document is important and requires your immediate attention. If you are in any doubt about the contents of this document, you should seek independent professional financial advice.

This notice should be read by all the participating employers and employee members of Principal Trust Company (Asia) Limited Retirement Scheme. Participating employers should notify their employees of the content of this notice upon receipt.

Dear Participating Employers and Scheme Members,

Re: Principal Trust Company (Asia) Limited Retirement Scheme
信安信託（亞洲）有限公司退休計劃 (the "Scheme")

Thank you for your continual support to the Principal Trust Company (Asia) Limited Retirement Scheme.

We would like to inform you that the following changes will be made to the Scheme with effect from 4 December 2008, the investment policy of the Principal Long Term Guaranteed Fund will be changed as follows :

(a) currently, the Principal Long Term Guaranteed Fund invests directly in a portfolio of fixed income and equity securities; after the proposed changes, it will invest in one or more investment funds including (i) investment funds authorised by the Securities and Futures Commission and/or (ii) index-tracking collective investment schemes;

(b) currently, the Principal Long Term Guaranteed Fund may not enter into any financial futures contracts or hold financial options contracts; after the proposed changes, it may acquire or hold financial futures contracts or financial options contracts; and

(c) the target ranges of asset allocation and geographic allocation of the Principal Long Term Guaranteed Fund will be changed as follows :

   (i) Currently, the asset allocation is mainly in equity securities (20-80%) and fixed income securities (15-75%); after the proposed changes, the asset allocation will be mainly in equity securities (10-55%) and debt securities (25-90%); and

   (ii) Currently, the geographic allocation is mainly in United States (15-100%) and Hong Kong (0-85%); after the proposed changes, the geographic allocation will be mainly in United States & Greater China (40-100%), Other Asia (0-50%) and Europe (0-50%).

   Please note that the above target ranges are for indication purpose only and may change in light of market conditions. For details of the proposed changes, please refer to the attached Third Addendum.

The investment policy of the Principal Long Term Guaranteed Fund has also been updated to clarify that the benchmark of the fund should be the inflation rates in Hong Kong. The above changes will not result in any increase in the fees and expenses borne by the Principal Long Term Guaranteed Fund or payable by the members.

On the other hand, we have also taken the opportunity to update certain fees and charges set out in the Principal Brochure of the Scheme. For example, the management fees for the Principal Money Market Fund, the Principal U.S. Dollar Money Market Fund and the Principal Asset Accumulation Fund will be reduced to 0.75% p.a., and the ORSO annual filing service fee will be revised to "not exceeding HK$1,500".

The above changes are also fully discussed in the Third Addendum attached. The Third Addendum should be read in conjunction with and forms part of the Principal Brochure of the Scheme. Please read the Third Addendum carefully.

Please note that any redemption, switching out or withdrawal of part or all of your units in the Principal Long Term Guaranteed Fund may have an adverse effect on your qualifying balance and guarantee entitlement under the fund. Hence, you are strongly advised not to redeem, switch out or withdraw part or all of your unitholdings in the fund other than the occurrence of a qualifying event.

If you have any queries on the changes made to the Scheme, please contact our Customer Hotline at 2827-1233.

Yours faithfully,

Principal Trust Company (Asia) Limited

This is a computer generated printout and no signature is required

PRINCIPAL TRUST COMPANY (ASIA) LIMITED RETIREMENT SCHEME
信安信託（亞洲）有限公司退休計劃 **(the "SCHEME")**
THIRD ADDENDUM

This Third Addendum should be read in conjunction with and forms part of the Principal Brochure dated 3 November 2006 and printed in August 2006 (the "**Principal Brochure**"), the First Addendum dated 15 May 2007 and the Second Addendum dated 30 November 2007 for the Principal Trust Company (Asia) Limited Retirement Scheme. All capitalised terms in this Third Addendum have the same meaning as in the Principal Brochure, unless otherwise stated.

Principal Trust Company (Asia) Limited accepts responsibility for the information contained in this Third Addendum as being accurate as at the date of publication.

The changes set out in Section (A) below shall take effect from 4 December 2008 :

(A) Change of Investment Structure and Revision of ORSO Annual Filing Service Fee

(a) The "Investment Policy" sub-section under the "Principal Long Term Guaranteed Fund" section on page 9 shall be deleted in its entirety and replaced by the following:

"***Investment Policy***

The objective of the fund is to provide a competitive long-term total rate of return, while also providing a minimum guaranteed average annual return over the career of the members. This type of guarantee is called a ***Long Term Guarantee***, which adopts a longer-term investment philosophy.

The assets of the fund is managed by Principal Asset Management Company (Asia) Limited, who is also the investment manager of the Scheme.

The fund is constituted under an insurance policy issued by Principal Insurance Company (Hong Kong) Limited. The Trustee is the holder of the policy. The policy will provide a guaranteed return to the Trustee, with the guarantee features as set out above. The Trustee will then make use of the guaranteed return available under the insurance policy to provide the guarantee to the members. Principal Insurance Company (Hong Kong) Limited is the Guarantor of the insurance policy and is an authorized insurer regulated by the Insurance Authority in Hong Kong. In providing the guarantee to the Trustee under the insurance policy, Principal Insurance Company (Hong Kong) Limited will ensure that adequate reserves and solvency margins will be maintained in accordance with the applicable insurance regulations and any other requirements imposed by the Insurance Authority.

The fund will invest in one or more investment funds including (a) investment funds authorised by the SFC and/or (b) index-tracking collective investment schemes (**"ITCIS"**). In selecting these investment funds, the Manager will seek to achieve the objectives of this fund. The selected investment funds are expected to use an investment strategy which focuses, among others, on fundamental analysis in order to identify the assets and the markets which are likely to offer good investment value. Such analysis should focus on economic issues such as GDP growth, inflation, monetary policy, currency analysis, valuations etc. At the security selection level, analysis would focus on both micro and macro factors. These factors include margins, revenues, earnings expectations etc.

The underlying investments will consist of debt and equity securities. Such securities may be denominated in HK dollars, US dollars or other currencies, and consistent with the overall risk-return objectives and permissible geographical allocation (as set out below) of the fund.

Currently, the Hong Kong dollar is pegged to the US dollar but the fund makes no assurance that this relationship will continue, necessitating flexibility for the Manager to choose assets in other currencies. Exposure to assets denominated in any currency other than the Hong Kong dollar can bring potential gains or losses to the fund as the fund itself is denominated in Hong Kong dollars. As the fund indirectly owns debt and equity securities, investors investing in this fund will experience gains and losses on these securities as markets fluctuate. The fund may acquire or hold financial futures contracts or financial options contracts.

The target ranges of asset allocation and geographic allocation of this fund are as follows:

Asset Allocation*	**Range**
Equity Securities	10-55%
Debt Securities	25-90%
Cash & Short-term Investments (e.g. bills and deposits)	0-20%

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

The fund is categorized as a guaranteed fund. The level of risk is higher than a money market fund, however with a guarantee of capital and return subject to the occurrence of qualifying events.

In the long term, the return of the fund is expected to be no less than the inflation rates in Hong Kong."

(b) The "ORSO Annual Filing Service Fee" section of the "ORSO Fees" table on page 22 shall be amended by revising the annual fee from "HK$1,100" to "not exceeding HK$1,500".

The changes set out in Section (B) below shall take immediate effect :

(B) Other Amendments

(a) The "Principal Asset Accumulation Fund" section on pages 14 to 15 shall be amended by deleting all references to "asset fee" in their entirety and replacing them by "management fee".

(b) The management fee percentages set out under the first paragraph on page 23 shall be amended as follows :

 (i) revising the management fee percentages for the Principal Money Market Fund and the Principal U.S. Dollar Money Market Fund from "1%" to "0.75%"; and

 (ii) revising the management fee percentage for the Principal Asset Accumulation Fund from "2%" to "0.75%".

4 September 2008

Principal Trust Company (Asia) Ltd.
Shui On Office:
5/F, Shui On Centre
6-8 Harbour Road
Wanchai, Hong Kong
Tel : (852) 2263 0263
Fax : (852) 2827 1707
Website : www.principal.com.hk

30 November 2007

This document is important and requires your immediate attention. If you are in any doubt about the contents of this document, you should seek independent professional financial advice.

This notice should be read by all the participating employers and employee members of Principal Trust Company (Asia) Limited Retirement Scheme. Participating employers should notify their employees of the content of this notice upon receipt.

Dear Participating Employers and Scheme Members,

Re: Principal Trust Company (Asia) Limited Retirement Scheme
信安信託（亞洲）有限公司退休計劃 (the "Scheme")

Thank you for your continual support to the Principal Trust Company (Asia) Limited Retirement Scheme.

We would like to inform you that with effect from 1 March 2008, the investment structures of the Principal Long Term Accumulation Fund, Principal Stable Yield Fund and Principal Global Growth Fund will be changed so that each of investment funds invested by these three constituent funds may also invest in one or more SFC-authorised investment fund(s) and/or index-tracking collective investment scheme(s) approved by the Mandatory Provident Fund Schemes Authority or make direct investments. There will be no change in the level of fees and charges payable by the members under the Scheme.

The above changes are also fully discussed in the Second Addendum attached. This Second Addendum should be read in conjunction with and forms part of the Principal Brochure of the Scheme. Please read the Second Addendum carefully. If you have any queries on the changes made to the Scheme, please contact our Customer Hotline at 2827-1233.

Yours faithfully,

Principal Trust Company (Asia) Limited

This is a computer generated printout and no signature is required

PRINCIPAL TRUST COMPANY (ASIA) LIMITED RETIREMENT SCHEME
信安信託（亞洲）有限公司退休計劃 **(the "SCHEME")**
SECOND ADDENDUM

This Second Addendum should be read in conjunction with and forms part of the Principal Brochure dated August 2006 (the "**Principal Brochure**") and the First Addendum dated 15 May 2007 for the Principal Trust Company (Asia) Limited Retirement Scheme. All capitalised terms in this Second Addendum have the same meaning as in the Principal Brochure, unless otherwise stated.

Principal Trust Company (Asia) Limited accepts responsibility for the information contained in this Second Addendum as being accurate as at the date of publication.

With effect from 1 March 2008, the Principal Brochure shall be amended as follows :

(a) The second sentence of the first paragraph of the "Principal Long Term Accumulation Fund" section on page 15 shall be deleted in its entirety and replaced by the following:

"This fund will invest in one or more SFC-authorised investment funds (in the form of one or more insurance policies or unit trusts) which may in turn make direct investments or invest in one or more SFC-authorised investment fund(s) and/or index-tracking collective investment scheme(s) approved by the Mandatory Provident Fund Schemes Authority."

(b) The second sentence of the first paragraph of the "Principal Stable Yield Fund" section on page 16 shall be deleted in its entirety and replaced by the following:

"Each investment fund may in turn invest in one or more SFC-authorised investment fund(s) and/or index-tracking collective investment scheme(s) approved by the Mandatory Provident Fund Schemes Authority or make direct investments."

(c) The second sentence of the first paragraph of the "Principal Global Growth Fund" section on page 17 shall be deleted in its entirety and replaced by the following:

"Each investment fund may in turn invest in one or more SFC-authorised investment fund(s) and/or index-tracking collective investment scheme(s) approved by the Mandatory Provident Fund Schemes Authority or make direct investments."

(d) The fifth paragraph of the "Fund Option Level" section on page 23 shall be amended by inserting the following sentence at the end of the paragraph :

"The percentages shown below will remain unchanged where a Constituent Fund invests in underlying SFC-authorised investment fund(s) and/or index-tracking collective investment scheme(s) approved by the Mandatory Provident Fund Schemes Authority pursuant to its investment policy."

30 November 2007

15 May 2007

This document is important and requires your immediate attention. If you are in any doubt about the contents of this document, you should seek independent professional advice.

This notice should be read by all Scheme Participants. Participating Employers should notify their members of the content of this notice upon receipt.

Dear Scheme Participants,

Re: Principal Trust Company (Asia) Limited Retirement Scheme 信安信託（亞洲）有限公司退休計劃 **(the "Scheme")**

Thank you for your continual support to the Principal Trust Company (Asia) Limited Retirement Scheme.

We would like to inform you that with effect from 15 June 2007, the investment policy of the Principal Long Term Guaranteed Fund under the Scheme will be revised, as set out in the attached Addendum. The purpose of the revision is to enhance the investment flexibility of the fund by modifying the target ranges of its asset allocation and geographical allocation. Please read the Addendum carefully.

As a result of this change, there is no change to the overall fees and charges to the Scheme. If you have any questions on the above, please contact our Customer Hotline at 2827-1233.

Principal Trust Company (Asia) Limited

Principal Trust Company (Asia) Limited Retirement Scheme
信安信託（亞洲）有限公司退休計劃 **Addendum to Principal Brochure**

This Addendum is important and requires your immediate attention. If you are in any doubt about the contents of this Addendum or the action to be taken, you should seek independent professional advice.

Principal Trust Company (Asia) Limited accepts responsibility for the information contained in this Addendum as being accurate as at the date of publication.

This Addendum is supplemental to and should be read in conjunction with the Principal Brochure of the Principal Trust Company (Asia) Limited Retirement Scheme printed in August 2006. All capitalised terms in this Addendum shall have the same meaning as those in the Principal Brochure, unless otherwise stated.

Principal Long Term Guaranteed Fund

With effect from 15 June 2007, the section "Investment Policy" of the Principal Long Term Guaranteed Fund on pages 9 to 10 of the Principal Brochure shall be deleted in its entirety and shall be replaced by the following:

"*Investment Policy*

The objective of the fund is to provide a competitive long-term total rate of return, while also providing a minimum guaranteed average annual return over the career of the members. This type of guarantee is called a **Long Term Guarantee**, which adopts a longer term investment philosophy.

The assets of the fund are managed by Principal Asset Management Company (Asia) Limited, which is the investment manager of the Scheme.

The fund is constituted under an insurance policy issued by Principal Insurance Company (Hong Kong) Limited. The Trustee is the holder of the policy. The policy will provide a guaranteed return to the Trustee, with the guarantee features as set out above. The Trustee will make use of the guaranteed return available under the insurance policy to provide the guarantee to the members. Principal Insurance Company (Hong Kong) Limited is the Guarantor to the insurance policy and is an authorised insurer regulated by the Insurance Authority in Hong Kong. In providing the guarantee to the Trustee under the insurance policy, Principal Insurance Company (Hong Kong) Limited will ensure that adequate reserves and solvency margins will be maintained in accordance with the applicable insurance regulations and any other requirements imposed by the Insurance Authority.

The fund consists of a portfolio of fixed income and equity securities. Such securities may be denominated in HK dollars, US dollars or other currencies that are consistent within the overall risk-return objectives and permissible geographical allocation (as set out below) of the fund. Currently, the Hong Kong dollar is pegged to the US dollar but this may change in the future, necessitating flexibility for the investment manager to choose assets in other currencies. Exposure to assets denominated in any currency other than the HK dollar can bring potential gains or losses to the fund as the fund itself is denominated in HK dollars.

The fund will use an investment strategy which focuses primarily on fundamental analysis in order to identify the assets and the countries which are likely to offer good investment value. Country research focuses on economic data such as GDP growth, inflation, monetary policy, currency analysis, etc. Selection of specific equity or fixed income securities is based on analysis of macro factors and micro factors like industry position, growth prospects, margins, etc. The fund will choose investments in bonds from an array of issuers like governments, provinces, government-supported entities or corporate issuer. Equity investments will be made in securities that appear to possess market value appreciation potential or other positive features like earnings growth, dividend payouts, etc.

The target ranges of asset allocation and geographic allocation of the fund are as follows:

Asset Allocation*	**Range**
Equity Securities	10-80%
Fixed Income Securities	0-90%
Cash & Short-term Investments (e.g. bills and deposits)	0-20%

Geographic Allocation*	**Range**
United States	15-100%
Hong Kong	0-85%
Other Asia	0-50%
Europe	0-50%
Other Countries	0-50%

The fund is categorized as a guaranteed fund. The level of risk is higher than a money market fund, however with a guarantee of capital and return subject to the occurrence of qualifying events."

15 May 2007

CONTENTS

Printed: Aug 2006

1. INTRODUCTION

Principal Insurance Company (Hong Kong) Limited is pleased to bring a retirement scheme alternative that is designed with the flexibility to meet the retirement needs of both employers and employees. Established in 1996, Principal Insurance Company (Hong Kong) Limited is a member of the Principal Financial Group® with its flagship company, Principal Life Insurance Company, founded in the United States in 1879.

As members of the Principal Financial Group, Principal Insurance Company (Hong Kong) Limited, Principal Trust Company (Asia) Limited and Principal Asset Management Company (Asia) Limited have access to a wide range of financial products and services, including, but not limited to, retirement and investment services, life and health insurance and investment management through its diverse family of financial services companies.

As a member of the Fortune 500, the Principal Financial Group serves over 16 million individuals and their dependents worldwide from its over 250 locations in Asia, Australia, Europe, Latin America and the United States.

With the Principal Trust Company (Asia) Limited Retirement Scheme, employers and employees can secure a comprehensive retirement plan through prudent, systematic savings and astute investment portfolios.

2. STRUCTURE — THE MASTER TRUST

The Principal Trust Company (Asia) Limited Retirement Scheme (the "Scheme") is a master trust established by Principal Insurance Company (Hong Kong) Limited (the "Insurer") and Principal Trust Company (Asia) Limited (the "Trustee"). The Trustee acts as trustee of the retirement schemes established within the master trust by participating employers. The Trustee collects contributions in accordance with the rules of each individual scheme established under the master trust (a "scheme") and invests them in the 14 fund choices under the Scheme. The 14 fund choices include the Principal Long Term Guaranteed Fund (which is offered under an insurance policy taken out by the Trustee) or 13 other notional funds established under the Scheme (the "Constituent Funds"). The 14 fund choices are particularly set out in Section 5.10 below. The Principal Long Term Guaranteed Fund and the 13 Constituent Funds of the Scheme are managed by Principal Asset Management Company (Asia) Limited (the "Manager") and administered by Principal Insurance Company (Hong Kong) Limited. Principal Asset Management Company (Asia) Limited is licensed in respect of Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance. Principal Insurance Company (Hong Kong) Limited is an insurer authorised by the Insurance Authority.

Principal Trust Company (Asia) Limited Retirement Scheme participants benefit from the vast administrative and record keeping experience shared by the member companies of the Principal Financial Group. As a member of Principal Financial Group, Principal Insurance Company (Hong Kong) Limited offers customers accurate and timely accounting of all transactions as well as access to investment management expertise of its sister companies.

Principal Trust Company (Asia) Limited Retirement Scheme is designed to pool assets of similar companies. In this way, the assets of small, medium and large employers can be segmented into various investment funds offering potential stability, more diversification and more competitive returns.

The afore-mentioned pooled retirement scheme is managed by Principal Asset Management Company (Asia) Limited and administered by Principal Insurance Company (Hong Kong) Limited.

3. GOVERNMENT REGULATIONS

3.1 Occupational Retirement Schemes Ordinance

The Government of the Hong Kong Special Administrative Region, through enabling legislation, regulates retirement schemes. Each employer will need to register his or her own scheme with the relevant authorities. The Trustee and Insurer can assist in this process.

The master trust is designed to comply with the Occupational Retirement Schemes Ordinance and constitutes a pooling agreement under its provisions. It applies to all participating schemes. As such, the master trust and participating schemes are governed by the laws of Hong Kong, and the parties can enforce their rights through the courts of Hong Kong.

3.2 Long Service Payment and Severance Payment Compatibility

Additionally, in adopting the master trust, an employer can more readily comply with the provisions in Part VB of the Employment Ordinance which provide that an employer will be liable for Long Service and Severance Payments in certain circumstances. Under retirement plans such as this, the employer is enabled to use the benefits attributable to the employer's contributions to the scheme to offset its long service or severance payment liabilities to the employees.

3.3 Securities and Futures Commission Authorization

The Principal Trust Company (Asia) Limited Retirement Scheme has been authorized by the Securities and Futures Commission ("SFC"), pursuant to section 104(1) of the Securities and Futures Ordinance, as a pooled retirement fund. In giving this authorization, the Commission has made no assessment of, nor does it take responsibility for, the financial soundness or merits of the Principal Trust Company (Asia) Limited Retirement Scheme nor has it verified the accuracy or truthfulness of statements made or, opinions expressed herein. Such authorization does not imply official recommendation from the SFC.

4. OUR PLAN. YOUR FUTURE. ONE PLAN. ONE SOLUTION.

As a basic level the Scheme is a defined contribution scheme established under a master trust where an employer and/or his or her employees (if so desired) may contribute a percentage of salary or a flat amount to a scheme.

The contributions are made periodically, through payroll deduction and systematically transferred to the Trustee. Using our state-of-the-art administration system, contributions are recorded in individually allocated accounts and then invested in the 14 fund choices under the Scheme. The 14 fund choices include the Principal Long Term Guaranteed Fund (under an insurance policy taken out by the Trustee) an 13 other Constituent Funds, each of which has a different investment policy. Out of the 14 fund choices, two of them are guaranteed funds.

Depending on the rules of a scheme, Employers/employees participating in that scheme can choose the funds in which their contributions should be invested.

Our master trust provisions are flexible and specific rules of the scheme may be proposed by each employer in the Application Form. Here are just some of the ways you may adjust the design to meet your objectives:

- **Definition of "Eligible Employee":** by service, class or location.
- **Contribution formula:** percentage or flat amount by service, class or location.
- **Definition of "Salary":** basic monthly salary only or including other remuneration.
- **Normal retirement age:** from 50 onwards.
- **Vesting schedule**
- **Fund Options:** fourteen available, namely, two guaranteed funds and twelve other investment funds.
- **Determination of investment mix:** employer choice, employee choice or, a combination.
- **Expense collection methods:** direct billed at scheme level or, deducted from account level.
- **Past service contributions:** when made, at what level and for whom.

5. SCHEME PROVISIONS

5.1 Contributions

An employer participating in the Scheme (the "Employer") may set out a formula to determine the amount of contribution on behalf of its employees covered by the Scheme (the "Employee"). The contribution may be a percentage of an Employee's salary, say 5%, may be a flat dollar amount say, $300 per month or, it may be varied according to the class of Employee or, based on years of service.

In some plans, Employees may also make voluntary contributions. This would further increase the size of the benefit at retirement.

5.2 Normal Retirement Benefit

This is the amount that is paid to an Employee upon attainment of Normal Retirement Age as spelled out in the rules of each scheme established under the master trust ("Scheme Rules"). Usually, the age is between 50 and 70. The benefit is equal to the total amount of all contributions made in respect of the Employee and any interest and investment earnings thereon.

The benefit may be taken in a lump sum or may be paid out periodically ensuring a steady income after retirement. This choice will be up to the Employee.

5.3 Early Retirement Benefit

If the Employer allows and if, it is set out in the Application Form, an Employee may retire early, that is, before the Normal Retirement Date provided that the Employee has met all the qualifications of early retirement. The full benefit will be paid out equal to all contributions made in respect of the Employee plus interest and investment earnings. The benefit may be paid in a lump sum or periodically. This choice will be up to the Employee.

5.4 Late Retirement Benefit

With the consent of the Employer, and if it has been spelled out in the Application Form, a member may retire later than the Normal Retirement Date (as specified in the Application Form). Contributions may or may not continue on behalf of the Employee. This will depend on what is spelled out in the Application Form. The benefit may be paid out in a lump sum or periodically. This choice will be up to the Employee.

5.5 Permanent Total Disability or Death

In the unlikely event of ill health that causes the Employee to become disabled and leave employment, or in the event of death, the total amount of all contributions made in respect of the Employee plus interest and investment earnings will be paid out in full. The payment may be in a lump sum or periodically, depending on the choice of the Employee. In case of death, the payment will be paid in a lump sum to the beneficiary of the Employee.

5.6 Resignation or Termination before Retirement Age

If an Employee leaves the service of the Employer before retirement age or, for reasons other than death or permanent total disability (as defined in the master trust deed), he or she will receive the total accumulated benefit resulting from his or her own contributions made and any interest and investment earnings. He or she will also be entitled to his or her vested portion of Employer's contributions made on his or her behalf and associated investment earnings based on the vesting schedule outlined and specified in the Scheme Rules and Application Form.

For example the vesting might be:

Completed Years of Service	**Vesting Percentage**
Less than 3	0%
3	30%
4	40%
5	50%
6	60%
7	70%
8	80%
9	90%
10 or more	100%

Any amounts of unvested contributions that result from applying the above scale or that result from an Employee being dismissed for fraud, dishonesty, habitual neglect of duties or other grounds on which the Employer is entitled to summarily dismiss, will revert back to the Employer and be used in accordance with the terms set out in the Application Form.

For example, they can be used to pay expenses, offset future contributions or reallocated to all remaining Employees. In the event of dismissal for fraud, dishonesty, etc. the Employee will only be entitled to his or her contributions made plus accumulated interest and investment earnings.

5.7 Payment of Benefit

The interval between receipt of request from the Employer/Employee to the Insurer for withdrawal and date of payment of benefit will not exceed 1 month under normal circumstances.

5.8 Member Account

Each Employee of the Scheme has a separately maintained and individually allocated account into which contributions made on his or her behalf are deposited in accordance with the terms of his or her Employer's scheme.

5.9 Past Service Contributions

Some employers want to establish pension plans as soon as they start business. Others need to wait until they can afford the cost. In such cases, these employers may want to reward their long service employees who have worked for them today and before the retirement scheme was adopted. To do this, the employer can make what is called a "Past Service Contribution". These contributions will be in an amount specified in the Application Form and will be credited to eligible Employees as defined in the same application.

5.10 Investment Options

The Scheme has diverse selection of fund options that will meet the needs of all Employers and all Employees whether they are savvy financial investors or conservative savers.

The Scheme currently offers fourteen fund options — two guaranteed funds and twelve other investment funds:

1. Principal Long Term Guaranteed Fund;
2. Principal Capital Guaranteed Fund;
3. Principal Asian Equity Fund;
4. Principal International Bond Fund;
5. Principal U.S. Equity Fund;
6. Principal International Equity Fund;
7. Principal Money Market Fund;
8. Principal U.S. Dollar Money Market Fund;
9. Principal Asset Accumulation Fund;
10. Principal Long Term Accumulation Fund;
11. Principal Stable Yield Fund;
12. Principal Global Growth Fund;
13. Principal China Equity Fund.
14. Principal Hong Kong Equity Fund.

To invest in the above fund(s) of the Scheme, subject to the rules of the relevant individual scheme, employers/employees may designate their fund choices. Their contributions will be used to purchase units of the particular fund(s) they have chosen according to the choices made and percentage allocated.

5.10.1 Guaranteed Fund

(i) Principal Long Term Guaranteed Fund

General

The Principal Long Term Guaranteed Fund is a fund constituted under an insurance policy issued to the Trustee by Principal Insurance Company (Hong Kong) Limited. Units of the fund are divided into the following three (3) classes of units:

(i) 4.0% guarantee class;

(ii) 5.0% guarantee class; and

(iii) 1.0% guarantee class.

The 1.0% guarantee class of units is available for investment with effect from 1 October 2004.

Under the guarantee mechanism, a "qualifying balance"[1] will be maintained in respect of all the scheme accounts of each member. When a contribution is made to the fund in respect of any scheme account, an amount equal to the contribution made will be credited to the qualifying balance of the member. Interest will then be credited to the qualifying balance as follows.

For the 4.0% (or 5%) guarantee class of units, in respect of contributions made on or before 30 September 2004, interest will be credited to the qualifying balance of the member at the rate of 4% per annum (or 5% per annum, as the case may be); and in respect of contributions made after 30 September 2004, interest will be credited to the qualifying balance at the **"New Applicable Rate"** (as described in the "New Applicable Rate" section on page 8 below). However, if the member effects a redemption, switching out or withdrawal of the units of the fund after 30 September 2004 other than the occurrence of a qualifying event (as described in the **"Provision of Guarantee"** section on page 6 below), the remaining qualifying balance (regardless of whether it includes contributions made on or before 30 September 2004) will only be credited with interest at the "new applicable rate". For the avoidance of doubt, no interest will be credited if the remaining qualifying balance is not greater than zero.

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

For the 1.0% guarantee class, interest will be credited to the qualifying balance at the "new applicable rate", regardless of the time at which contributions are made.

If the "new applicable rate" is changed, the Trustee will notify the employer and members concerned at least 3 months prior to the effective date of the change.

The guarantee will be offered to the member when all his accrued benefits are withdrawn upon the occurrence of a qualifying event. Please refer to the section "Guarantee Mechanism" on page 7 for details.

What class of units will be made available to a Scheme Member?

Contributions made by or in respect of members who on 30 September 2004 hold units of the 4% guarantee class or 5% guarantee class will continue to remain in their respective classes after 30 September 2004. Contributions made by or in respect of members who do not hold units of the 4% guarantee class or 5% guarantee class on 30 September 2004 will be invested in the 1% guarantee class of units.

Members should note that investing contributions in the 4% or 5% guarantee class does not mean that the members will be entitled to a 4% or 5% guaranteed rate of return in respect of all of their contributions.

Provision of Guarantee

Contributions made by or on behalf of a member for the subscription of a particular guarantee class of units will receive a guarantee of capital as well as a prescribed guarantee rate of return over the entire period his or her contributions are invested in the fund in the manner described below[2]. For details, please refer to the **"Guarantee Mechanism"** section on page 7. The guarantee of capital and return will only be offered if the contributions in the fund are withdrawn upon **the occurrence of a "qualifying event"**, which is **the receipt by the Trustee of a valid claim of all the accrued benefits** of the member upon satisfying any of the following conditions:

(a) Attainment of the normal retirement age or retirement at or after the early retirement age but before the normal retirement age

(b) Total incapacity

(c) Death

(d) Termination of the member's employment (regardless of the reason of termination) and the continuous period for which the member has been investing in the fund up to and including the last date of his employment ("qualifying period") is at least 36 complete months. The qualifying period in respect of a member may also be re-set to zero if the member (or his personal representative) effects a redemption, switching out or withdrawal of the units of the fund other than upon the occurrence of a qualifying event. For details, please refer to the paragraphs below.

For this purpose, a "valid claim" means a claim of all the accrued benefits submitted by the member (or his personal representative) or his employer pursuant to, and with all the necessary supporting documentation as prescribed by the rules of the Scheme. Such claim must cover all accrued benefits of the member and must be received by the Trustee. Unless otherwise stated below, the guarantee will not be applicable if the "valid claim" does not cover all accrued benefits or the "valid claim" is not received by the Trustee. For the avoidance of doubt, in case a member invests in the fund in his capacity of an employee of more than one employment, a "valid claim" made by the member (or his employer) in respect of one employment shall mean a claim submitted by him (or his employer) of all (but not part of) his accrued benefits under that (but not any other) employment.

In addition, the guarantee will also apply in the following circumstances in the manner described.

2 Members should note that the guarantee of capital and return may be subject to the imposition of a bid spread in the future in relation to the redemption of the relevant units.

If there is any intra-group transfer of an employee member (and his new employer is participating in the same Scheme (or another scheme under the trusteeship of Principal Trust Company (Asia) Limited and management of Principal Asset Management Company (Asia) Limited)) and the accrued benefits of the member is transferred to the new employer's scheme, the accrued benefits of the member (without the application of the guarantee) will be transferred to his new scheme accounts under the scheme of his new employer, and such new scheme accounts will, for the purpose of the guarantee, be treated as a continuation of his original scheme accounts and all the guarantee entitlements which he has accrued under the old scheme accounts will continue under his new scheme accounts as if there had never been any transfer. Thus, any continuous period for which the member has been investing in the fund under the original employer immediately preceding such transfer will also be taken into account in determining the qualifying period of that member under his employment with the new employer. The guaranteed rate of return which is applicable to the old scheme accounts will also be applicable to the new scheme accounts unless there is a redemption, switching out or withdrawal of the units of the fund other than upon the occurrence of a qualifying event (please see the guarantee mechanisms below for details). If the member (or his employer) subsequently makes a valid claim of all of his accrued benefits from the new scheme accounts upon the occurrence of a qualifying event, the guarantee will be applied as at the date of withdrawal. For details of the guarantee, please refer to "Guarantee Mechanism" below.

Guarantee Mechanism

The guarantee will be offered to the member when all his accrued benefits are withdrawn upon the occurrence of a qualifying event, in which case, if the net asset value of the units of the fund (without the application of the guarantee and before the deduction of the applicable bid spread, if any) is smaller than the qualifying balance maintained for that member, the qualifying balance (less the applicable bid spread, if any) will be paid and the "shortfall" will be made up by the insurer of the fund. (Such net asset value of the units without the application of the guarantee and before the deduction of any applicable bid spread is referred to as "normal account balance" in the Appendix.) On the other hand, if the net asset value of the units of the fund (without the application of the guarantee and before the deduction of the applicable bid spread, if any) is equal to or greater than the qualifying balance, the member will be entitled to the net asset value (without the application of the guarantee and less the applicable bid spread, if any), instead of the qualifying balance. For illustrations, please refer to Scenarios 1 and 2 — Examples 1 to 5 set out in the Appendix.

For the purpose of condition (d) of the qualifying event, the qualifying period will be determined in respect of the member upon termination of his employment (i.e. the continuous period for which the member has been investing in the fund up to and including the last date of his employment). However, the qualifying period in respect of a member may be re-set to zero if the member (or his personal representative) effects a redemption, switching out or withdrawal of the units of the fund other than upon the occurrence of a qualifying event. For illustrations, please refer to Scenario 3 — Examples 6 set out in the Appendix. For the avoidance of doubt, in case a member invests in this fund in his capacity of an employee of more than one employment, the guarantee offered under the fund will be applicable to each such employment (and will not be affected by the other employment), and a qualifying balance and qualifying period will be maintained by the Trustee in respect of each such employment.

Members should also note that the guarantee of capital and return (as reflected in the value of the qualifying balance) for all of the above classes of units is offered on the condition that all contributions made to the fund by or on behalf of the member will NOT be redeemed, switched out or otherwise withdrawn (in whole or in part) other than the occurrence of a qualifying event. If a redemption, switching out or withdrawal of the units of the fund is effected other than the occurrence of a qualifying event, the guarantee will be affected and the qualifying balance of the member will be adjusted downward to reflect the effect of the redemption, switching out or withdrawal of such units (and may become negative if the amount redeemed, switched out or withdrawn is greater than the qualifying balance). For illustrations, please refer to Scenarios 4 and 5 — Examples 7 to 9 set out in the Appendix. Furthermore, the "qualifying period" (as stated in condition (d) of the qualifying events) of the member will be re-set to zero and re-commence from the date of such adjustment. However, if at such time there is no longer any contribution remained in the fund, the qualifying period will only recommence from the date on which new contribution is made to the fund. For illustrations, please refer to Scenarios 6 and 7 — Examples 10 to 12 set out in the Appendix.

Due to the nature of the guarantee, the fund is expected to be a "long term" investment for the members. Members should note that any redemption, switching out or withdrawal of part or all of their units in the fund may have an adverse effect on his qualifying balance(s) and guarantee entitlement under the fund. **Hence, members are strongly advised not to redeem, switch out or withdraw part or all of their unitholdings in the fund other than upon cessation of employment or the occurrence of a qualifying event.**

Members should also note that in crediting interest to the qualifying balance(s) of the members, the following will apply: in respect of a contribution made to the fund by or in respect of a member, interest shall be accrued to the relevant qualifying balance in respect of such contribution from (and including) the dealing day on which it is invested in the fund up to (and excluding) the dealing day on which the relevant units are redeemed by the member (or his personal representative) upon the occurrence of a qualifying event. However, if there is a redemption, switching out or withdrawal by the member from the fund other than the occurrence of a qualifying event, interest shall be accrued to the adjusted qualifying balance (provided that it is greater than zero) from (and including) the dealing day on which such adjustment is made up to (and excluding) the dealing day on which the relevant units are redeemed by the member (or his personal representative) upon the occurrence of a qualifying event.

New Applicable Rate

For the purpose of the guarantee, the "new applicable rate" will be 1% per annum which will take effect from 1 October 2004, and such rate may also be adjusted by the insurer of the fund at a frequency of not more than once every three years. If the "new applicable rate" is adjusted, the Trustee will notify the members concerned at least 3 months prior to the effective date of the adjustment. For the avoidance of doubt, if the "new applicable rate" is applicable to a qualifying balance, any adjustment to the "new applicable rate" will also be applicable to the qualifying balance from the date of adjustment and shall not affect the application of the relevant guaranteed rate(s) prior thereto.

Operation of the Guarantee if the Employer makes a claim for severance or long service payment

If an employer submits a claim under the Employment Ordinance for a payment from the employee member's accrued benefits for the purpose of setting off the severance payment or long service payment made to the leaving employee member, the **Trustee will only process the claim after it has received the relevant claim form from the employee member (or his employer) in respect of his accrued benefits**. The purpose of so doing is to ensure that any guarantee entitlement of the employee member will not be adversely affected by reason of the set off claim made by the employer. **Thus, in order to avoid undue delay, members are advised that their claims of accrued benefits or transfer of such benefits should be submitted as soon as practicable if a severance payment or long service payment has been made to them by their employers.**

If a qualifying event occurs, the qualifying balance of the member will be calculated in order to determine the amount of accrued benefits payable to the employee member. If the qualifying balance is greater than the net asset value of the units of the fund, the qualifying balance will be payable. Out of such a qualifying balance, both the portion (the "employer's portion") attributable to the employer's contribution and the portion (the "employee's portion") attributable to the employee's contribution will be ascertained. The employer's claim of severance payment or long service payment will be paid from the employer's portion. Any amount remaining in the employer's portion will be paid to the employee, together with the employee's portion. For illustrations, please refer to Scenario 9 — Examples 14 set out in the Appendix.

Pro-rata Calculation of Qualifying Balance

Upon the occurrence of a qualifying event, if the qualifying balance (regardless whether it is related to the employer's or employee's contributions) is partly payable to the member concerned and partly payable to certain other person(s), the amount of such partial payments will be calculated on a pro-rata basis according to the respective entitlements of the member and that other person(s) to the qualifying balance. An example of such situation is where a vesting scale is applicable to the employer's contributions to be paid to the member, in which case, the member will only be entitled to a pro-rated value of the qualifying balance which is attributable to the vested benefits of the member, and the remaining qualifying balance representing the unvested portion will be paid to the employer. For illustration, please refer to Scenario 8 — Example 13 set out in the Appendix.

Investment Policy

The objective of this fund is to provide a competitive long-term total rate of return, while also providing a minimum guaranteed average annual return over the career of the members. This type of guarantee is called a **Long Term Guarantee**, which adopts a longer term investment philosophy.

The assets of the fund is managed by Principal Asset Management Company (Asia) Limited, who is also the investment manager of the Scheme.

The fund is constituted under an insurance policy issued by Principal Insurance Company (Hong Kong) Limited. The Trustee is the holder of the policy. The policy will provide a guaranteed return to the Trustee, with the guarantee features as set out above. The Trustee will then make use of the guaranteed return available under the insurance policy to provide the guarantee to the members. Principal Insurance Company (Hong Kong) Limited is the Guarantor of the insurance policy and is an authorised insurer regulated by the Insurance Authority in Hong Kong. In providing the guarantee to the Trustee under the insurance policy, Principal Insurance Company (Hong Kong) Limited will ensure that adequate reserves and solvency margins will be maintained in accordance with the applicable insurance regulations and any other requirements imposed by the Insurance Authority.

The fund adopts a balanced investment philosophy and consists of a portfolio of fixed income and equity securities denominated in US dollars and Hong Kong dollars. While the Hong Kong dollar is currently pegged to the US dollar, the fund makes no assurance that this relationship will continue. Members in this fund share the foreign exchange gains and losses associated with funds owning securities denominated in US dollars. Because the fund indirectly owns fixed income securities, members in the fund will experience gains and losses on these securities as interest rates fluctuate. The fund is denominated in Hong Kong dollars.

Selection of fixed income securities is based on long-term, fundamental analysis. The fund will invest in the global bond markets of a broad array of governments, provinces, government-supported entities as well as corporate issuance. Equity investments will be made in securities which as a group, appear to possess potential for appreciation in market value. Common stocks chosen for investment may include those of companies with above average sales and earnings growth. The policy of investing in securities which have a high potential for capital growth can mean that the assets of the fund may be subject to greater risk than securities which do not have such potential. The fund may not enter into any financial futures contracts or financial options contracts.

The target ranges of asset allocation and geographic allocation of this fund are as follows:

Asset Allocation*	**Range**
Equity Securities	20-80%
Fixed Income Securities	15-75%
Cash & Short-term Investments (e.g. bills and deposits)	3-20%

Geographic Allocation*	Range
United States	15-100%
Hong Kong	0-85%
Other Asia	0-30%

This fund is categorised as a guaranteed balanced fund. The level of risk is higher than a money market fund, however with a guarantee of capital and return subject to the occurrence of qualifying events.

Reserve

In order to assure proper functioning of the insurance policy, a reserve for contingency has been established by the Guarantor of the insurance policy. There will be a reserve charge (please refer to the "Fees and Charges" section for details) which will be deducted from the asset value of the insurance policy. There will be a dilution of performance due to the guarantee structure in place. No part of the reserve will form part of the scheme assets or the assets of the insurance policy. If the reserve is insufficient to meet the guarantees of the insurance policy, the guarantees will be met with assets of the Guarantor. Upon termination of the insurance policy, the Guarantor shall distribute to the Trustee and the then existing policyholders an amount equal to (i) the aggregated reserve charges deducted from the asset value of each guarantee class of the insurance policy after 30 September 2004, less (ii) the aggregate amount of shortfalls paid or payable by the Guarantor out of the reserve after 30 September 2004. Upon receipt of any distribution from the Guarantor, the Trustee will in turn distribute it to the then existing members of the fund in accordance with their respective amounts of investments in the fund. However, if the Trustee considers that such allocation is not fair and equitable, the Trustee may distribute the amount in such other manner, taking into account the prevailing circumstances at the time of distribution.

Termination of the Insurance Policy by the Guarantor

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

(ii) Principal Capital Guaranteed Fund

Contributions entering this fund will receive a guarantee of capital over the period deposited in the fund. The actual return of the fund will vary from year to year and will be based on the unit value of the fund, which is calculated based on the approximated net asset value of the underlying assets of the fund valued on an amortized cost basis as declared by the Insurer. The guarantee will ensure that the unit value of the fund will never decrease. The capital value will be guaranteed for initial and subsequent contributions.

This type of guarantee is called a **Capital Guarantee. The objective of this fund is to guarantee the capital value of the contributions, and to earn a competitive short-term rate of return.**

The fund will invest solely in a guaranteed fund, which bears the same name as that of the fund, under the Principal Guaranteed Umbrella Fund Policy which is authorised by the SFC. The underlying guaranteed fund will in turn invest in a portfolio of short duration securities. The fund's exposure to capital gains and losses associated with interest rate fluctuations is mitigated because the underlying fund will invest mainly in a variety of relatively short duration securities and bank deposits. The fund is denominated in Hong Kong dollars.

The fund may not enter into any financial futures contracts or financial options contracts.

The target ranges of asset allocation and geographic allocation of this fund are as follows:

Asset Allocation*	**Range**
Debt Securities	0-100%
Cash & Short-term Investments (e.g. bills and deposits)	0-100%

Geographic Allocation*	**Range**
Hong Kong	60-100%
United States	0-40%
Europe	0-40%
Others	0-20%

As the fund is guaranteed against negative unit value movements, the level of risk is minimal. On the other hand, lower risk may mean lower return of the fund. The investment in this fund is different from placing funds on deposit with a bank or deposit-taking company, although this fund provides a guarantee on capital value. The fund is not subject to the supervision of the Hong Kong Monetary Authority.

In the long term, the return of the fund is expected to exceed the bank saving rates in Hong Kong.

How the guarantee works

The account balance is determined by multiplying the number of units by a unit value. Since the unit value of the fund is never to decrease, and in the event that if the fund should have insufficient funds to produce a non-decreasing unit value, the Guarantor will inject capital into the guaranteed fund under the insurance policy to increase the unit value to the same previous level. In other words, the guarantee will apply in all circumstances. Thus, by investing in the underlying guaranteed fund, the Trustee will make use of the guaranteed return available under the guaranteed fund to provide the guarantee to the members investing in the fund.

At the insurance policy level, the Guarantor holds an investment reserve to ensure non-decreasing unit values. The reserve is backed by the assets of the Guarantor. No part of the investment reserve will form part of the assets of the guaranteed fund or the fund. There is no additional charge for this reserve. The assets of the Guarantor are set in accordance with whatever requirement promulgated by the relevant authority.

As the unit value of the underlying guaranteed fund is calculated based on the unit value as declared by the Insurer on each valuation day (which occurs on which banks in Hong Kong are open for normal banking business (excluding Saturdays) or such other day or days as the Insurer may determine from time to time), the value of the underlying assets of the units of the fund is therefore not based on the market value of the assets but the approximated net asset value of the underlying assets of the insurance policy valued on an amortized cost basis as declared by the Insurer on a daily basis.

Principal Insurance Company (Hong Kong) Limited, the Insurer of the underlying insurance policy, is also the Guarantor of the underlying insurance policy.

5.10.2 Other Constituent Funds

As a consequence of the general nature of varied investment and possible exchange or interest rate fluctuations, the value of investments and the yield from the following Constituent Funds may go down as well as up.

(iii) Principal Asian Equity Fund

The objective of this fund is to achieve capital growth over the long-term by investing in Asian equity markets. The fund will invest solely in an investment fund, which bears the same name as that of the fund, under the Principal Investment Umbrella Fund Policy. The investment fund is a SFC-authorised fund which will invest, directly or indirectly, in

Asian equities and may include exposure to cash and short-term investments. Countries or territories in which the investment fund may directly or indirectly invest include but are not limited to Hong Kong, Singapore, South Korea, Malaysia, Taiwan, Thailand, the Philippines, Indonesia, India and China. Investors in this fund share the foreign exchange gains and losses associated with funds owning securities denominated in various currencies of these countries. The risk profile of the fund is generally regarded as high. The fund is denominated in Hong Kong dollars.

The fund may not enter into any financial futures contracts or financial options contracts.

The target ranges of asset allocation and geographic allocation of this fund are as follows:

Asset Allocation*	**Range**
Equity Securities	70-100%
Cash & Short-term Investments (e.g. bills and deposits)	0-30%

Geographic Allocation*	**Range**
Hong Kong	0-65%
South Korea	0-65%
Malaysia	0-40%
Singapore	0-40%
Taiwan	0-40%
China	0-40%
Indonesia	0-40%
Philippines	0-40%
Thailand	0-40%
India	0-40%
Others	0-20%

In the long term, the return of the fund is expected to exceed inflation rates in Hong Kong.

(iv) ***Principal International Bond Fund***

The objective of this fund is to maximise real asset value in terms of international purchasing power. The fund will invest solely in an investment fund, which bears the same name as that of the fund, under the Principal Investment Umbrella Fund Policy. The investment fund is a SFC-authorised fund and will mainly invest, directly or indirectly, in a portfolio of debt securities, both sovereign and non-sovereign, of varying maturities and denominated in the world's major currencies. As the fund takes exposure to various currencies at any given time, investors in this fund share the foreign exchange gains and losses associated with funds owning these currencies. The risk profile of the fund is generally regarded as moderate. The fund is denominated in Hong Kong dollars.

The fund may not enter into any financial futures contracts or financial options contracts.

The target ranges of asset allocation and geographic allocation of this fund are as follows:

Asset Allocation*	**Range**
Debt Securities	70-100%
Cash & Short-term Investments (e.g. bills and deposits)	0-30%

Geographic Allocation*	**Range**
United States	15-65%
France	0-50%
Germany	0-50%
Hong Kong	0-50%
Italy	0-50%
Japan	0-50%
Canada	0-20%
Other countries (each)	0-20%

In the long term, the return of the fund is expected to be comparable to the inflation rates in Hong Kong.

(v) Principal U.S. Equity Fund

The objective of this fund is to achieve capital growth over the long term by investing in US equity markets. The fund will invest solely in an investment fund, which bears the same name as that of the fund, under the Principal Investment Umbrella Fund Policy. The investment fund is a SFC-authorised fund and will invest, directly or indirectly, mainly in US equities and may include exposure to cash and short-term investments. Investors in this fund share the foreign exchange gains and losses associated with funds owning securities denominated in US dollars and other currencies. The risk profile of the fund is generally regarded as high. The fund is denominated in Hong Kong dollars.

The fund may not enter into any financial futures contracts or financial options contracts.

The target ranges of asset allocation and geographic allocation of this fund are as follows:

Asset Allocation*	**Range**
Equity Securities	70-100%
Cash & Short-term Investments (e.g. bills and deposits)	0-30%

Geographic Allocation*	**Range**
United States	70-100%
Hong Kong	0-30%
Others	0-20%

In the long term, the return of the fund is expected to exceed the inflation rates in Hong Kong.

(vi) Principal International Equity Fund

The objective of this fund is to seek capital growth over the long-term through investing solely in an investment fund, which bears the same name as that of the fund, under the Principal Investment Umbrella Fund Policy. The investment fund is a SFC-authorised fund and will invest, directly or indirectly, mainly in equity securities selected from investment markets around the world and may include exposure to cash and short-term investments. As the fund takes exposure to various currencies at any given time, investors in this fund share the foreign exchange gains and losses associated with funds owning these currencies. The risk profile of the fund is generally regarded as high. The fund is denominated in Hong Kong dollars.

The fund may not enter into any financial futures contracts or financial options contracts.

The target ranges of asset allocation and geographic allocation of this fund are as follows:

Asset Allocation*	**Range**
Equity Securities	70-100%
Cash & Short-term Investments (e.g. bills and deposits)	0-30%

Geographic Allocation*	**Range**
North America	0-65%
Europe	0-60%
Asia	0-50%
South America	0-50%
Middle East	0-20%
Africa	0-20%
Others	0-20%

In the long term, the return of the fund is expected to exceed inflation rates in Hong Kong.

(vii) ***Principal Money Market Fund***

The objective of this fund is to earn a competitive short-to-medium term rate of return. This will be accomplished by investing solely in an investment fund, which bears the same name as that of the fund, under the Principal Investment Umbrella Fund Policy. The investment fund is a SFC-authorised fund and will invest, directly or indirectly, primarily in a portfolio of high quality Hong Kong dollar short to medium duration debt securities. The investment fund will also invest in US dollar short-to-medium duration debt securities. The risk profile of the fund is generally regarded as low. The investment fund will hold assets denominated in Hong Kong dollars and may also hold assets denominated in US dollars or other currencies. The fund is denominated in Hong Kong dollars.

The fund may not enter into financial futures contracts or financial options contracts.

The target ranges of asset allocation and geographic allocation of this fund are as follows:

Asset Allocation*	**Range**
Short-to-medium duration Debt Securities	60-100%
Cash & Short-term Investments (e.g. bills and deposits)	0-40%

Geographic Allocation*	**Range**
Hong Kong	70-100%
United States	0-30%
Europe	0-30%
Others	0-20%

In the long term, the return of the fund is expected to exceed the Hong Kong dollar bank saving rates in Hong Kong.

(viii) ***Principal U.S. Dollar Money Market Fund***

The objective of this fund is to earn a competitive short-to-medium term rate of return. This will be accomplished by investing solely in an investment fund, which bears the same name as that of the fund, under the Principal Investment Umbrella Fund Policy. The investment fund is a SFC-authorised fund and will mainly invest, directly or indirectly, in a portfolio of high quality US dollar or Hong Kong dollar short to medium duration debt securities. The investment fund will hold US dollars assets and may also hold assets denominated in Hong Kong dollars or other currencies. The risk profile of the fund is generally regarded as low. The fund is denominated in Hong Kong dollars.

The fund may not enter into financial futures contracts or financial options contracts.

The target ranges of asset allocation and geographic allocation of this fund are as follows:

Asset Allocation*	**Range**
Short-to-medium duration Debt Securities	60-100%
Cash & Short-term Investments (e.g. bills and deposits)	0-40%

Geographic Allocation*	**Range**
United States	70-100%
Hong Kong	0-30%
Europe	0-30%
Others	0-20%

In the long term, the return of the fund is expected to exceed the U.S. dollar bank saving rates in Hong Kong.

(ix) ***Principal Asset Accumulation Fund***

The objective of this fund is to at least earn a net return equal to the "prescribed savings rate" (which is broadly the average rate of interest on a Hong Kong dollar savings account) determined by the MPFA. The fund will invest solely in an investment fund, which bears the same name as that of the fund, under the Principal Investment Umbrella Fund Policy. The investment fund is a SFC-authorised fund and will invest, directly or indirectly, in a portfolio of bank deposits, short duration securities and high quality money market instruments denominated in Hong Kong dollars. The fund's exposure to capital gains and losses associated with interest rate fluctuations is mitigated because the investment fund will invest, directly or indirectly, mainly in a variety of relatively short duration securities and bank deposits. The risk profile of the fund is generally regarded as low. The fund is denominated in Hong Kong dollars.

The fund may not enter into any financial futures contracts or financial options contracts.

The target ranges of asset allocation and geographic allocation of this fund are as follows:

Asset Allocation*	**Range**
Certificates of Deposit	0-95%
Debt Securities	0-95%
Cash & Short-term Investments (e.g. bills and deposits)	0-100%

Geographic Allocation*	**Range**
Hong Kong	100%

In the long term, the return of the fund is expected to be similar to the bank saving rates in Hong Kong.

How the mechanism of the Asset Accumulation Fund works

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

If the amount of income and profits derived from the investment of the fund prior to the deduction of asset fee and administrative expenses for a particular month exceeds the amount of interest that would be earned under the "prescribed savings rate", a portion of the asset fee and/or administrative expenses not exceeding the excess may be deducted from the accrued benefits of the member.

However, if for any particular month no portion of asset fee or administrative expenses is deducted resulting from being unable to meet the prescribed savings rate, or the amount deducted is less than the actual amount required, the deficiency may be "rolled forward" and deducted from the amount of any excess that may remain from any of the following 12 months after deducting the required asset fee and/or administrative expenses of that month. If the deficiency still remains after the 12-month period, no additional deduction will be allowed thereafter.

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

Subject to the above provisions, all income and profits derived from the investment of the fund net of asset fee and administrative expenses after taking into account any losses arising from the investment of the fund will be credited to the scheme members who have invested in this fund.

(x) Principal Long Term Accumulation Fund

The objective of this fund is to earn a competitive long-term total rate of return through investing in a balanced portfolio. This fund will invest in one or more SFC-authorised investment funds (in the form of one or more insurance policies or unit trusts) which in turn make direct investments or invest in other SFC-authorised investment funds. Through these underlying investments, the fund has a balanced investment philosophy and will invest in a portfolio of fixed income and equity securities denominated in the world's major currencies. As the fund takes exposure to various currencies at any given time, investors in this fund share the foreign exchange gains and losses associated with funds owning these currencies. Because the fund indirectly owns fixed income securities, investors in the fund will experience gains and losses on these securities as interest rates fluctuate. The risk profile of the fund is generally regarded as moderate to high. The fund is denominated in Hong Kong dollars.

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

Selection of fixed income securities is based on long-term, fundamental analysis. Through its underlying funds, the fund will invest in the global bond markets of a broad array of governments, provinces, government-supported entities as well as corporate issues. Equity investments will be made in securities which as a group, appear to possess potential for appreciation in market value. Common stocks chosen for investment may include those of companies with above average sales and earnings growth. The policy of investing in securities which have a high potential for capital growth can mean that the assets of the fund may be subject to greater risk than securities which do not have such potential. The fund may not enter into any financial futures contracts or financial options contracts.

The target ranges of asset allocation and geographic allocation of this fund are as follows:

Asset Allocation*	**Range**
Equity Securities	20-80%
Fixed Income Securities	15-75%
Cash & Short-term Investments (e.g. bills and deposits)	0-20%

Geographic Allocation*	**Range**
United States	15-100%
Asia	0-85%
Europe	0-30%
Others	0-20%

This fund is categorised as a balanced fund. While the short-term return may be volatile due to the risk inherit in its investments, the long-term rate of return is expected to be higher than that of a money market or bond fund.

In the long term, the return of the fund is expected to be no less than the inflation rates in Hong Kong.

(xi) Principal Stable Yield Fund

The objective of this fund is to seek long-term growth of capital through investing in one or more SFC-authorised investment funds (in the form of one or more insurance policies or unit trusts). Each investment fund may in turn invest in other SFC-authorised investment funds or make direct investments. Through these underlying investments, the fund will invest primarily in equities and debt securities of different countries. The fund will provide an international exposure for investors' monies, with relatively more emphasis on debt investments. Investors in this fund share the foreign exchange gains and losses associated with funds owning securities denominated in US dollars and other currencies. The risk profile of the fund is generally regarded as moderate. This fund is denominated in Hong Kong dollars.

The fund may acquire or hold financial futures contracts or financial options contracts, but only for the purpose of hedging.

The target ranges of asset allocation and geographic allocation of this fund are as follows:

Asset Allocation*	**Range**
Equity Securities	0-60%
Debt Securities	20-90%
Cash & Short-term Investments (e.g. bills and deposits)	0-30%

Geographic Allocation*	**Range**
Asia	0-75%
Europe	0-75%
North America	0-80%
South America	0-10%
Africa/Middle East	0-10%
Others	0-20%

In the long term, the return of the fund is expected to exceed the inflation rates in Hong Kong.

(xii) Principal Global Growth Fund

The objective of this fund is to seek long-term growth of capital through investing in one or more SFC-authorised investment funds (in the form of one or more insurance policies or unit trusts). Each investment fund may in turn invest in other SFC-authorised investment funds or make direct investments. Through these underlying investments, the fund will invest primarily in equities and debt securities of different countries. The fund will provide an international exposure for investors' monies using a balanced investment philosophy. It will normally target a larger allocation to equity investments than debt securities. Investors in this fund share the foreign exchange gains and losses associated with funds owning securities denominated in US dollars and other currencies. The risk profile of the fund is generally regarded as moderate to high. The fund is denominated in Hong Kong dollars.

The fund may acquire or hold financial futures contracts or financial options contracts, but only for the purpose of hedging.

The target ranges of asset allocation and geographic allocation of this fund are as follows:

Asset Allocation*	**Range**
Equity Securities	30-90%
Debt Securities	10-70%
Cash & Short-term Investments (e.g. bills and deposits)	0-30%

Geographic Allocation*	**Range**
Asia	0-75%
Europe	0-75%
North America	0-80%
South America	0-10%
Africa/Middle East	0-10%
Others	0-20%

In the long term, the return of the fund is expected to exceed the inflation rates in Hong Kong.

(xiii) Principal China Equity Fund

This fund seeks to provide investors with long-term capital growth through investing in one or more SFC-authorised investment funds (in the form of one or more insurance policies or unit trusts). Each investment fund may in turn invest in other SFC-authorised investment funds or make direct investments. Through these underlying investments, the fund will invest primarily in equity securities of companies conducting a majority of their business in the People's Republic of China ("PRC") or whose business operation is based in or relates to the PRC, and the fund will invest at least 70 per cent of the non-cash assets of the fund in securities and other investments based in or related to the PRC.

Through the underlying investments, the fund intends to invest its assets primarily in quoted securities of PRC companies; those securities will normally be listed on a stock exchange in the PRC. Equity allocations to the PRC will include shares or depositary receipts of the PRC companies or companies deriving substantial revenue from the PRC but listed outside the PRC and other shares listed in Shanghai or Shenzhen or any other exchanges that may be established in the PRC. The risk profile of the fund is generally regarded as high.

The target ranges of asset allocation and geographic allocations of the fund are as follows:

Asset Allocation*	**Range**
Equity & Quasi-Equity Securities	70-100%
Cash & Short-term Investments (e.g. bills and deposits)	0-30%

Geographic Allocation*	**Range**
PRC (including Hong Kong and Macau)	70-100%
Others	0-30%

(xiv) Principal Hong Kong Equity Fund

The objective of this fund is to achieve capital growth over the long-term by investing in one or more SFC-authorised investment funds (in the form of one or more insurance policies or unit trusts). Each investment fund may in turn invest in other SFC-authorised investment funds or make direct investments. Through these underlying investments, the fund will invest mainly in Hong Kong equity markets, primarily in listed equities issued by companies established in Hong Kong or by companies whose shares are listed in Hong Kong (including but not limited to H shares and shares of red-chip companies listed on the Hong Kong Stock Exchange). The underlying investments of the fund may also include listed equities issued by companies which have business in Hong Kong and hold cash and short-term investments.

The target ranges of asset allocation and geographic allocation of the fund are as follows:

Asset Allocation*	**Range**
Equity Securities	70-100%
Cash & Debt Instruments (e.g. bills and deposits)	0-30%

Geographic Allocation*	**Range**
Hong Kong	30-100%
PRC	0-50%
Others	0-30%

Notwitstanding the above, at least 70% of the non-cash assets of the fund will be invested in equities listed on the Hong Kong Stock Exchange.

The risk profile of the fund is generally regarded as high. In the long term, the return of the fund is expected to exceed the inflation rates in Hong Kong.

* Investors should note that (i) the above ranges of asset and geographical allocations are for indication only and long term allocations may vary with changing market conditions; and (ii) the geographical allocation for equity investments is classified by the place of principal business of the issuers and the geographical allocation for debt investments is classified by their currency denomination.

5.11 Investment and Borrowing Restrictions

Each Constituent Fund (and its underlying investment fund(s)) is required to comply with the investment and borrowing restrictions in the following:

(a) Chapter 8.10 and Chapter 8.11 of the Code on Pooled Retirement Funds (including but not limited to the requirements under Chapter 7 (other than Chapter 7.11) of the Code on Unit Trusts and Mutual Funds, where applicable);

(b) Section 27 of the Occupational Retirement Schemes Ordinance; and

(c) Schedule 3 to the Mandatory Provident Fund Schemes(Exemption) Regulation.

In addition, additional investment restrictions applicable to each Constituent Fund are described in the relevant part of Section 5.10 above.

5.12 Pricing and Valuation

5.12.1 Unitisation

The unitholdings of the insurance policy funds held by the Trustee immediately preceding the establishment of the following Constituent Funds shall, upon the etablishment of such Consituent Funds, be credited into the corresponding Constituent Funds. The initial value of each unit of such Constituent Funds is equal to the unit prices of the corresponding insurance policy funds held by the Trustee as at the date on which unitholdings of such insurance policy funds are credited into the corresponding Constituent Funds.

(i) Principal Capital Guaranteed Fund;

(ii) Principal Asian Equity Fund;

(iii) Principal International Bond Fund;

(iv) Principal U.S. Equity Fund;

(v) Principal International Equity Fund;

(vi) Principal Money Market Fund;

(vii) Principal U.S. Dollar Money Market Fund; and

(viii) Principal Asset Accumulation Fund.

The initial unit value of the other Constituent Funds is HK$10. For all Constituent Funds, the unit value after the date of issue will be the unit value of the Constituent Fund on the relevant Valuation Date. Contributions will be used to purchase units of the 14 fund choices chosen by employers/ employees on the Valuation Date as soon as reasonably practicable after the Trustee receives and verifies the contributions.

5.12.2 Valuation

The Trustee will ascertain the value of a unit of the Principal Long Term Guaranteed Fund and each Constituent Fund in accordance with a policy established by the Trustee and at such time on each Dealing Day as determined from time to time by the Trustee (except when dealing is suspended). Dealing Day means any day (other than a Saturday or Sunday) on which the banks are open for business in Hong Kong, or such other day or days as the Trustee may from time to time determine to be a Dealing Day either generally or in respect of a particular Constituent Fund.

The unit value for the Principal Long Term Guaranteed Fund and each Constituent Fund will be equal to the net asset value of the fund, divided by the number of units outstanding, before taking into account any contributions, transfers and/or withdrawals made on the date of valuation. The net asset value of the fund will be calculated by valuing the assets of the fund and deducting the liabilities attributable to the fund. Liabilities of a fund include, but are not limited to, custodial fees, investment transaction fees, transfer taxes and other taxes imposed by the country of origin and such other fees and charges as may be incurred in the course of managing and administering the fund. Any value or amount which is denominated in a currency other than Hong Kong dollars shall be converted into Hong Kong dollars at the rate (whether official or otherwise) which the Trustee deems appropriate in the circumstances having regard to any premium or discount which may be relevant to any costs of exchange.

5.13 Deferral or Suspension of Dealings

Dealing of 14 funds will take place on each Dealing Day. However, having regard to the interests of the members, the Trustee may suspend or defer dealing of the units of any funds in exceptional circumstances, which include, but not limited to:

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

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

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

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

The Trustee must notify the Employers as soon as practicable after it has declared suspension of dealing and determination of the net asset value of any fund.

6. FLEXIBLE ADMINISTRATION AND SERVICES

As a member company of the U.S. based Principal Life Insurance Company, the Insurer has access to a highly sophisticated and state-of-the-art record keeping and administration system. This system, Principal International System (PISYS), was developed in house and is proprietary computer software technology that was customized specifically for use in Hong Kong.

More importantly, our network of trained sales representatives and independent advisors and consultants are able to provide guidance and assistance in assuring that your retirement plan needs are met.

6.1 Establishing a scheme

Complete the Application Form to establish your own scheme under the master trust. Return the Application Form to your sales representative or directly to the head office of the Insurer.

After reviewing our Application Form, you can see that you have the ability to create a customized set of Scheme Rules simply by checking the appropriate box on the Application Form.

Since the scheme must be established under trust, legally a Deed of Adherence must be completed. In order to simplify this process, the Deed of Adherence has been prepared to form part of the same document as is the Application Form.

6.2 Transferring an existing scheme

It is easy to move the administration of your existing scheme and the investment of the assets to our master trust. Inform your sales representative about your prior scheme and we will work with you and the past administrator and investment manager to arrange for a transfer.

6.3 Services Provided by Principal Insurance Company (Hong Kong) Limited

The Insurer always stands ready to provide the following services:

- Scheme design assistance and consultation.
- Assistance in preparing the document for registration of the scheme by the Registrar of ORSO.
- Preparation of a sample announcement of the scheme to Employees.
- Assistance in holding enrollment meetings for participating Employees.
- Periodic statements of account for Employers and Employees to be prepared not less than annually.
- Calculation and payment of benefits.
- General administration and record keeping.

7. FEES AND CHARGES

There are three levels of fees and charges: Scheme Level, the Fund Option Level and Underlying Fund Level.

7.1 Scheme Level

The Trustee will be entitled to receive the trustee fee set out in the Application Form for its services rendered to the Scheme. The trustee fee will include a one time participation fee and an annual fee according to the size of the account value. There may be an amount up to the charges shown below.

In keeping with our tradition of complete flexibility, we provide you with a choice of how you would like us to collect expenses for administration of the scheme.

Option 1: Under this option all fees are billed directly to the Employer on a monthly basis except the Annual Fee which is assessed at scheme effective date and thereafter at the beginning of each financial year. The amount of such fees are shown below. For employers who join the Scheme on or after 1 October 2004, Option 1 will not be available unless otherwise determined by the Trustee in its sole discretion.

Option 2: Under this option, all fees and charges are charged directly to and deducted from the member accounts of the Employees, except termination charge which is borne by the Employer. The amount of such fees are shown below.

	TRUSTEE FEE			
Trustee Fee	One time participation fee up to HK$4,000, and an annual fee up to the following percentages: **Total Account Value** — **Percentage Charge** First HK$25 million — 0.20% Next HK$25 million — 0.15% Excess — 0.10%			
	ADMINISTRATION CHARGES			
Items	**Option 1**		**Option 2**	
Annual Fee	HK$1,000		Nil	
Annual Member Fee	First 100 members, HK$20 each Additional members, HK$10 each For future enrollment of new members, it will be charged immediately after their enrollment.		Nil	
Contribution Fee (The scale is applied to all future contributions made under a new scheme.)	**Annual Contribution** First HK$200,000 Next HK$200,000 Next HK$100,000 Excess	**Percentage Charge** 3.50% 2.75% 2.00% 1.00%	Nil	
Termination Charge (Upon termination by the Employer according to the scale will be assessed.)	**Completed Financial years of the Scheme as of Date of Termination** Less than 1 year 1 to 2 years 2 to 3 years 3 to 4 years 4 to 5 years After 5 years	**Termination Charge Percentage** 4.5% 3.5% 2.5% 1.5% 0.5% Nil	**Completed Financial years of the Scheme as of Date of Termination** Less than 1 year 1 to 2 years 2 to 3 years 3 to 4 years 4 to 5 years 5 to 6 years 6 to 7 years After 7 years	**Termination Charge Percentage** 6.5% 5.5% 4.5% 3.5% 2.5% 1.5% 0.5% Nil
Administration Fee (At the end of the scheme's financial year a percentage of the total account value will be deducted according to the scale.)	Nil		**Total Employees** Up to 30 31 to 50 51 to 100 101 to 250 251 +	**Percentage Charge** 1.2% 1.0% 0.8% 0.6% 0.5%

	ORSO FEES
Optional Initial ORSO Registration Fee	**HK$2,300** This includes the Appointed Solicitor's Statement of Principal Trust Company (Asia) Limited Retirement Scheme and the Registration Fee of HK$1,200 payable to the Registrar. This is paid by the Employer.
ORSO Annual Filing Service Fee	An Annual Fee of HK$1,100. This includes the Certification of Scheme Assets by appointed Auditor of Principal Trust Company (Asia) Limited. (NOTE: The Registrar of Occupational Retirement Schemes Ordinance will send the Notice of Periodic Fee for HK$1,200 to the Employer directly for settlement on an annual basis after the first financial year of the scheme.)

Employers who join the Scheme prior to 1 October 2004 may choose either the Option 1 or the Option 2 and specify it in the Application Forms. If an employer chooses Option 2, the 4% guarantee class of units will be applicable to their employees who invest in the Principal Long Term Guaranteed Fund prior to 1 October 2004 and will continue to apply to such employees on or after 1 October 2004 provided they hold units of such class on 30 September 2004. If an employer chooses Option 1, the 5% guarantee class of units will be applicable to their employees who invest in the Principal Long Term Guaranteed Fund prior to 1 October 2004 and will continue to apply to such employees on or after 1 October 2004 provided they hold units of such class on 30 September 2004. However, if the employees do not hold units of the 4% or 5% guarantee class of units on 30 September 2004, they may only invest in the 1% guarantee class of units after 30 September 2004. Once an option is chosen by an employer, the relevant charges will apply to all of its employees including those who may only invest in the 1% guarantee class of units. For employers who join the Scheme on or after 1 October 2004, Option 1 will not be available and only the Option 2 will apply.

7.2 Fund Option Level

For the Principal Long Term Guaranteed Fund, the insurer will be entitled to charge any expenses incurred in the establishment, administration and management of the fund. The costs that the fund may incur include but not limited to management fees, custodian fees, valuation fees, auditor's fee, legal fees, costs incurred in the maintenance of the policy and the costs of preparation of the relevant documentation. The management fee of the fund is 1.5% per annum of the fund value.

Further, a guarantee charge of 1% per annum of the fund value will be deducted and placed in the reserve established by the guarantor for meeting the guarantees of the Principal Long Term Guaranteed Fund.

For the other Constituent Funds, the Trustee and the Manager will be entitled to charge any expenses incurred in the establishment, administration and management of the funds.

Subject to the provisions in relation to the Principal Asset Accumulation Fund, each of the Constituent Funds is to bear the costs set out in the Master Trust Deed of the Scheme that are directly attributable to it. Any cost incurred by the Scheme which are attributable to the Principal Long Term Guaranteed Fund shall be charged to the fund and reflected in its unit price. Any other costs of the Scheme which are not directly attributable to a Constituent Fund or the Principal Long Term Guaranteed Fund will be allocated to all the Constituent Funds and the Principal Long Term Guaranteed Fund in proportion to their respective net asset value. The costs that the Scheme may incur include but not limited to custodian fees, valuation fees, auditor's fees, legal fees, costs incurred in regulatory approval and the maintenance of the Scheme and the costs of preparation, distribution of the Principal Brochure. The Trustee has the discretion to waive part or all of the foregoing expenses, fees and charges.

If a Constituent Fund initially invests in one or more underlying funds, the management fees charged at the underlying fund level will be collected by the Manager by deducting such fee from the assets of the Constituent Fund. The amount of such fees being deducted will not exceed the percentages shown below.

	Percentage of fund value per annum
Principal Capital Guaranteed Fund	1.0%
Principal Asian Equity Fund	1.0%
Principal International Bond Fund	1.0%
Principal U.S. Equity Fund	1.0%
Principal International Equity Fund	1.0%
Principal Money Market Fund	1.0%
Principal U.S. Dollar Money Market Fund	1.0%
Principal Asset Accumulation Fund	2.0%
Principal Long Term Accumulation Fund	1.0%
Principal Stable Yield Fund	1.0%
Principal Global Growth Fund	1.0%
Principal China Equity Fund	1.0%
Principal Hong Kong Equity Fund	1.0%

7.3 Underlying Fund Level

For the Constituent Funds, the management fees charged at the underlying fund level will be collected by the Manager at the Constituent Fund level by deducting the management fee from the assets of each Constituent Fund as set out in Section 7.2 above.

Each of the underlying funds in which the Constituent Funds invest will bear the costs as set out in their respective constitutive documents, including, but not limited to, custodian and sub-custodian fees, valuation fees, auditors' fees, legal fees, indemnity insurances, costs incurred in regulatory approval and maintenance of the underlying funds, costs of preparation and distribution of the relevant offering documents and annual registration fees.

7.4 Changes of Percentage or Choice of Fund Options for New Contributions/Switching Units of Existing Funds

The Scheme allows either an Employer or an Employee to decide the investment choices for all the Employer's contributions and Employee's contributions. Alternatively, the Employer and the Employee are allowed to decide the investment choices for Employer's contributions and Employee's contributions respectively.

The Employer/Employee is entitled to change the percentage allocation or choice of fund options in respect of their new contributions once every month for up to 12 times per financial year of the Scheme at no extra cost. Additional request will be charged at HK$75 each.

The Employer/Employee is also entitled to change the percentage allocation or choice of fund options by switching all or part of the units in a fund option (acquired by using the Employer's contributions and Employee's contributions) into units of another fund option(s). Such switching can be made once per quarter for up to 4 times per financial year of the Scheme at no extra cost. Additional request will be subject to a charge of HK$75 per change. These charges are outlined in the Application Form.

If an Employer/Employee decides not to change the percentage allocation or choice of fund options in respect of new contributions in a month or for switching all or part of the Employee's units in a fund options into units of another fund option(s) in a quarter, then such right to change shall be deemed used and cannot be saved to be used at the next change period.

The above fees and charges, including the management fees as specified in each fund, may be increased up to the maximum level permitted, subject to the approval of the SFC and 3 months' prior notice (or such other notice period the SFC may approve) has been given to participants of the Scheme. The Trustee will give the participants a prior notice of any decrease in such fees and charges.

8. MISCELLANEOUS

8.1 Rebates

Neither Principal Insurance Company (Hong Kong) Limited/Principal Asset Management Company (Asia) Limited 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 Fund(s) to the broker or dealer, save that goods and services ("soft dollars") may be retained within the limitations set out by the SFC. Those permissible goods and services must be, among other things, of demonstrable benefit to the investors and consistent with best execution standards. They may include research and advisory services, portfolio analysis, data and quotation services etc. but may not include, among other things, travel, accommodation, entertainment or direct money payments.

8.2 Termination of the Scheme

Although we hope to have you as a customer for many years, we do recognize that things can change. You are able to terminate your scheme by giving written notice to the Trustee at least 3 months in advance of the actual termination date.

Likewise, we may terminate a scheme by giving 3 months' written notice to the Employers and Employees.

A Scheme will also be terminated upon the expiry of 80 years from the date of execution of the master trust deed (unless the Insurer and the Trustee by deed agree to continue the master trust and such continuation is then lawful). On the termination of the master trust, each scheme under the master trust shall be terminated and wound up in accordance with the Scheme Rules.

On the winding up or termination of a scheme, the Trustee shall apply the assets of the scheme in the following manner:

- Upon the winding-up of a scheme, the Trustee shall, after paying all outstanding expenses and all expenses incidental to the winding-up, apply the assets of the scheme to provide benefits for the members under the provisions of the Scheme Rules.
- Any assets remaining after provision of benefits be applied (as determined by the Trustee) for any or all of the following purposes:
  - (a) payment of expenses;
  - (b) in satisfaction of contributions due but unpaid by the Employers;
  - (c) augmentation of the benefits of all or any of the members;
  - (d) payment out of the scheme to the Employers.

8.3 Notices

If the Trustee or any other party is required to give a notice to members who are in the employment of an Employer, unless the Trustee otherwise determines, the Trustee or that other party (as the case may be) will only send a copy of the relevant notice to the Employer who should then notify all of its Employee members.

8.4 Tax Advantages

These schemes provide a tax advantage to participating Employers. The contributions made by an Employer, up to 15% of the relevant Employee's total annual emoluments (total compensation), can be considered as a business expense, thus saving profits tax on such contributions.

This section is prepared according to Principal Insurance Company (Hong Kong) Limited's understanding of the tax implications for Hong Kong Employers and Employees based on advice from our advisors. We recommend that Employers and Employees seek independent professional advice regarding their own circumstances.

8.5 Our Responsibility

Principal Insurance Company (Hong Kong) Limited accepts responsibility for the accuracy of the information contained in this brochure at the time of its issue subject to the reservations or qualifications expressed herein. As this is meant to be a brief description of the terms and conditions of the policy, please see the actual master trust document and your personalized proposal for further and complete information.

Nov 3, 2006

For further information and a personalized proposal,
please contact Principal Insurance Company (Hong Kong) Limited
or Principal Trust Company (Asia) Limited
at 2827 1234. Or, see your professional
advisor or consultant.

Registered Address

Principal Insurance Company (Hong Kong) Limited
Unit 1001-03, Central Plaza
18 Harbour Road
Wanchai, Hong Kong

Principal Trust Company (Asia) Limited
Unit 1001-03, Central Plaza
18 Harbour Road
Wanchai, Hong Kong

Principal Asset Management Company (Asia) Limited
Unit 1001-03, Central Plaza
18 Harbour Road
Wanchai, Hong Kong

Scheme Auditor
KPMG
8/F, Prince's Building
10 Chater Road
Central, Hong Kong

APPENDIX — ILLUSTRATIONS OF THE GUARANTEE FEATURES OF THE PRINCIPAL LONG TERM GUARANTEED FUND

Introductory Notes:

A. **Illustration of the Guarantee Mechanism**

Warnings:

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

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

B. **Assumptions relating to Illustrations**

3. The following illustrative examples (other than Scenario 8 — example 13) assume that $5,000 is contributed at the beginning of each year in the Principal Long Term Guaranteed Fund. For each member participating in this fund, we will maintain a normal account balance ("NB") and a qualifying account balance ("QB"). The QB is merely an accounting record and any amount credited (or debited) to the QB means that such an amount is recorded as a credit (or debit) to the QB. For the purpose of the fund, QB indicates the guaranteed amount offered to the member under the fund upon the occurrence of a qualifying event.

4. The NB is the net asset value of the relevant units of the fund, and may go down as well as up. In other words, the NB will reflect the actual performance of the units held by the member.

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

6. In the illustrations, QB 1 is the QB for contributions made on or before 30 September 2004, and QB 2 is the QB for contributions made after 30 September 2004. For illustration purposes, it is assumed that there are employer's and employee's contributions and both contributions are fully vested in the employee member (except in scenario 8 — example 13 where the application of the guarantee on vested and unvested benefits is illustrated).

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

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

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

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

    (i) the NB in respect of the withdrawn units will be paid;

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

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

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

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

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

11. For the avoidance of doubt, paragraphs 10 (i) to (iv) will also be applicable in case where units of the fund are fully withdrawn other than the occurrence of a qualifying event.

12. Members should note that the QB of a scheme member will be determined independent of any of his former employment (other than in the case of "intra-group transfer" as set out on page 7).

Scenario 1:

Assumptions:

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

(b) No redemption, switching or withdrawal has been made.

Illustrations:

End of Year	Actual Annualised Return of the Fund	End of Year NB (reflects actual investments)	Qualifying Period (reflects period of investment)	End of Year QB 1 (5%) (contributions made on or before 30 September 2004 - subject to 5% rate of return)	End of Year QB 2 (1%) (contributions made after 30 September 2004 - subject to 1% rate of return)	End of Year Total QB (QB 1 + QB 2)
2002	1.00%	$5,050.00	12 months	$5,250.00	$ -	$5,250.00
2003	2.00%	$10,251.00	24 months	$10,762.50	$ -	$10,762.50
2004	9.00%	$16,623.59	36 months	$16,550.63	$ -	$16,550.63
2005	7.00%	$23,137.24	48 months	$17,378.16	$5,050.00	$22,428.16

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

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

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

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

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

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

QB = $10,762.50 ($5,000 x 1.05 x 1.05 + $5,000 x 1.05)

NB = $10,251.00 ($5,000 x 1.01 x 1.02 + $5,000 x 1.02)

Therefore, $10,762.50 will be paid.

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

Since the qualifying period is less than 36 months, there is no qualifying event. The NB (for End of Year 2003) at the sum of $10,251.00 will be paid .

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

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

QB1 + QB2 = $22,428.16 ($5,000 x 1.05 x 1.05 x 1.05 x 1.05 + $5,000 x 1.05 x 1.05 x 1.05 + $5,000 x 1.05 x 1.05 + $5,000 x 1.01)

NB = $23,137.24 ($5,000 x 1.01 x 1.02 x 1.09 x 1.07 + $5,000 x 1.02 x 1.09 x 1.07 + $5,000 x 1.09 x 1.07 + $5,000 x 1.07)

Therefore, $23,137.24 will be paid.

Scenario 2:

Assumptions:

(a) A member first invested in the fund on 1 January 2005 and therefore the guaranteed rate of return of 1% applies to all his contributions.

(b) No redemption, switching or withdrawal has been made.

Illustrations:

End of Year	Actual Annualised Return of the Fund	End of Year NB (reflects actual investments)	Qualifying Period (reflects period of investment)	End of Year QB 1 (5%) (contributions made on or before 30 September 2004 - subject to 5% rate of return)	End of Year QB 2 (1%) (contributions made after 30 September 2004 - subject to 1% rate of return)	End of Year Total QB (QB 1 + QB 2)
2005	0.00%	$5,000.00	12 months	$ -	$5,050.00	$5,050.00
2006	-3.00%	$9,700.00	24 months	$ -	$10,150.50	$10,150.50

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

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

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

Illustrative Example 4: As of 31 December 2005, member retires after attaining the normal retirement age of 65. All relevant contributions were made after 30 September 2004. Member then makes a claim for his accrued benefits. Actual redemption takes place on the first day of the following year and the NB for that day is the same as the NB for the previous day. Since retirement at normal retirement age is a qualifying event, the greater of (i) the total QB (i.e. QB1 + QB2, both for End of Year 2005) and the NB (for End of Year 2005) will be paid.

QB1 + QB2 = $5,050.00 ($5,000 x 1.01)

NB = $5,000.00

Therefore, $5,050.00 will be paid.

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

Since the qualifying period is less than 36 months, there is no qualifying event. The NB (for End of Year 2006) at the sum of $9,700.00 will be paid.

Scenario 3:

Assumptions:

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

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

Illustrations:

End of Year	**Actual Annualised Return of the Fund**	**End of Year NB (reflects actual investments)**	**Qualifying Period (reflects period of investment)**	**Withdrawal made by member**	**End of Year QB 1 (5%) (contributions made on or before 30 September 2004 - subject to 5% rate of return)**	**End of Year QB 2 (1%) (contributions made after 30 September 2004 - subject to 1% rate of return)**	**End of Year Total QB (QB 1 + QB 2)**
2002	1.00%	$5,050.00	12 months	$ -	$5,250.00	$ -	$5,250.00
2003	2.00%	$10,251.00	24 months	$ -	$10,762.50	$ -	$10,762.50
2004	9.00%	$16,623.59	36 months	$ -	$16,550.63	$ -	$16,550.63
#2005	7.00%	$13,137.24	0 months	$10,000	$ -	$12,428.16	$12,428.16

\# This illustrates the position after a withdrawal.

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

Illustrative Example 6: As of 31 December 2005, member requests to withdraw $10,000 and transfer it to another fund option. Some contributions were made before 30 September 2004 and some were made after 30 September 2004. Actual redemption takes place on the first day of the following year and the NB for that day is the same as the NB for the previous day.

NB (for End of Year 2005) before withdrawal was $23,137.24 ($16,623.59 x 1.07 + $5,000 x 1.07, i.e. $16,623.59 was increased at 7% until the withdrawal is made and new contribution at the beginning of 2005 of $5,000.00 was also increased at 7%).

NB (for End of Year 2005) after the withdrawal was $13,137.24 ($23,137.24 - $10,000).

Total QB (i.e. QB1 + QB2, both for End of Year 2005) before withdrawal was $22,428.16 ($16,550.63 x 1.05 + $5,000 x 1.01, i.e. $16,550.63 was increased at 5% until the withdrawal is made and new contribution at the beginning of 2005 of $5,000 was increased at 1%).

Since the total QB (for End of Year 2005) is less than the NB (for End of Year 2005) immediately before the withdrawal ($22,428.16 < $23,137.24), the total QB (for End of Year 2005) will be reduced by the amount withdrawn ($10,000).

Total QB after withdrawal = $22,428.16 - $10,000

= $12,428.16

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

Scenario 4:

Assumptions:

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

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

(c) No contribution is made in 2006 and contribution only resumes in 2007.

Illustrations:

End of Year	Actual Annualised Return of the Fund	End of Year NB (reflects actual investments)	Qualifying Period (reflects period of investment)	Withdrawal made by member	End of Year QB 1 (5%) (contributions made on or before 30 September 2004 - subject to 5% rate of return)	End of Year QB 2 (1%) (contributions made after 30 September 2004 - subject to 1% rate of return)	End of Year Total QB (QB 1 + QB 2)
2002	1.00%	$5,050.00	12 months	$ -	$5,250.00	$ -	$5,250.00
2003	2.00%	$10,251.00	24 months	$ -	$10,762.50	$ -	$10,762.50
2004	9.00%	$16,623.59	36 months	$ -	$16,550.63	$ -	$16,550.63
#2005	7.00%	$137.24	0	$23,000	$ -	$(571.84)	$(571.84)
#2006	-12.00%	$120.77	12 months	$ -	$ -	$(571.84)	$(571.84)
#2007	10.00%	$5,632.85	24 months	$ -	$ -	$4,472.44	$4,472.44

\# These illustrate the position after a withdrawal.

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

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

Illustrative Example 7: As of 31 December 2005, member requests to withdraw $23,000 and transfer it to another fund option. Some contributions were made before 30 September 2004 and some were made after 30 September 2004. Actual redemption takes place on the first day of the following year and the NB for that day is the same as the NB for the previous day.

NB (for End of Year 2005) before withdrawal was $23,137.24 ($16,623.59 x 1.07 + 5,000 x 1.07, i.e. $16,623.59 was increased at 7% until the withdrawal is made and new contribution at the beginning of 2005 of $5,000.00 was also increased at 7%).

NB (for End of Year 2005) after the withdrawal was $137.24 ($23,137.24 - $23,000).

Total QB (i.e. QB1 + QB2, for End of Year 2005) before withdrawal was $22,428.16 ($16,550.63 x 1.05 + 5,000 x 1.01, i.e. $16,550.63 was increased at 5% until the withdrawal is made and new contribution at the beginning of 2005 of $5,000 was increased at 1%).

Since the total QB (for End of Year 2005) is less than the NB (for End of Year 2005) immediately before the withdrawal ($22,428.16 < $23,137.24), the total QB (for End of Year 2005) will be reduced by the amount withdrawn ($23,000).

Total QB after withdrawal = $22,428.16 - $23,000

= - $571.84 (A negative QB does not mean that the member owes Principal money, rather it simply denotes that benefit exceeding the guaranteed amount has already been paid out.)

New guaranteed rate of 1% per annum will be applied to the total QB and any new contributions after the withdrawal. Qualifying period will be reset to zero and the counting of the new qualifying period shall recommence immediately as from 31 December 2005. During the Year 2006, no new contribution is received and the total QB remains at -$571.84 (i.e. the total QB (for End of Year 2005) and the total QB (for End of Year 2006) are the same). No interest is accrued to the QB during the Year 2006 as the total QB is negative. As of beginning of Year 2007, new contributions of $5,000 have been made. The total QB becomes positive at the beginning of Year 2007 and interest is accrued to the QB for the Year 2007.

Illustrative Example 8: As of 31 December 2007, member's employment is terminated. The qualifying period has been reset to zero as of 31 December 2005. The NB (for End of Year 2005) after withdrawal was $137.24 but there was no contribution in 2006. New contribution of $5,000 was made at the beginning of 2007. The qualifying period as of 31 December 2007 is

24 months. Member then makes a claim for his accrued benefits. Actual redemption takes place on the first day of the following year and the NB for that day is the same as the NB for the previous day. Since the qualifying period is less than 36 months, there is no qualifying event. NB (for End of Year 2007) at the sum of HK$5,632.85 will be paid.

Scenario 5:

Assumptions:

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

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

Illustrations:

End of Year	Actual Annualised Return of the Fund	End of Year NB (reflects actual investments)	Qualifying Period (reflects period of investment)	Withdrawal made by member	End of Year QB 1 (5%) (contributions made on or before 30 September 2004 - subject to 5% rate of return)	End of Year QB 2 (1%) (contributions made after 30 September 2004 - subject to 1% rate of return)	End of Year Total QB (QB 1 + QB 2)
2002	1.00%	$5,050.00	12 months	$ -	$5,250.00	$ -	$5,250.00
2003	2.00%	$10,251.00	24 months	$ -	$10,762.50	$ -	$10,762.50
2004	3.00%	$15,708.53	36 months	$ -	$16,550.63	$ -	$16,550.63
#2005	7.00%	$158.13	0 months	$22,000	$ -	$158.13	$158.13

This illustrates the position after a withdrawal.

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

Illustrative Example 9: As of 31 December 2005, member requests to withdraw $22,000 and transfer it to another fund option. Some contributions were made before 30 September 2004 and some were made after 30 September 2004. Actual redemption takes place on the first day of the following year and the NB for that day is the same as the NB for the previous day.

NB (for End of Year 2005) before withdrawal was $22,158.13 ($15,708.53 x 1.07 + 5,000 x 1.07, i.e. $15,708.53 was increased at 7% until the withdrawal is made and new contribution at the beginning of 2005 of $5,000.00 was also increased at 7%).

Total QB (i.e. QB1 + QB2, both for End of Year 2005) before withdrawal was $22,428.16 ($16,550.63 x 1.05 + 5,000 x 1.01, i.e. $16,550.63 was increased at 5% until the withdrawal is made and new contribution at the beginning of 2005 of $5,000 was increased at 1%).

NB (for End of Year 2005) after withdrawal = $22,158.13 - $22,000

= $158.13

Since the total QB (for End of Year 2005) is greater than the NB (for End of Year 2005) immediately before the withdrawal ($22,428.16 > $22,158.13), the total QB (for End of Year 2005) after withdrawal will be reset to an amount equal to the NB (for End of Year 2005) after withdrawal.

Total QB after withdrawal = NB after withdrawal

= $158.13

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

Scenario 6:

Assumptions:

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

(b) **Full Withdrawal is effected with the QB less than the NB (QB < NB) at the time of withdrawal.**

(c) **No contribution is made in 2006 and contribution only resumes in 2007.**

Illustrations:

End of Year	Actual Annualised Return of the Fund	End of Year NB (reflects actual investments)	Qualifying Period (reflects period of investment)	Withdrawal made by member	End of Year QB 1 (5%) (contributions made on or before 30 September 2004 - subject to 5% rate of return)	End of Year QB 2 (1%) (contributions made after 30 September 2004 - subject to 1% rate of return)	End of Year Total QB (QB 1 + QB 2)
2002	1.00%	$5,050.00	12 months	$ -	$5,250.00	$ -	$5,250.00
2003	2.00%	$10,251.00	24 months	$ -	$10,762.50	$ -	$10,762.50
2004	9.00%	$16,623.59	36 months	$ -	$16,550.63	$ -	$16,550.63
#2005	7.00%	$ -	0*	$23,137.24 (full withdrawal)	$ -	$(709.08)	$(709.08)
#2006	-12.00%	$ -	0*	$ -	$ -	$(709.08)	$(709.08)
#2007	10.00%	$5,500.00	12 months	$ -	$ -	$4,333.83	$4,333.83

\# These illustrate the position after a withdrawal.

* There is no qualifying period when the NB is zero

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

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

Illustrative Example 10: As of 31 December 2005, member requests full withdrawal (i.e. $23,137.24) and transfer the amount to another fund option. Some contributions were made before 30 September 2004 and some were made after 30 September 2004. Actual redemption takes place on the first day of the following year and the NB for that day is the same as the NB for the previous day.

NB (for End of Year 2005) before withdrawal was $23,137.24 ($16,623.59 x 1.07 + 5,000 x 1.07, i.e. $16,623.59 was increased at 7% until the withdrawal is made and new contribution at the beginning of 2005 of $5,000.00 was also increased at 7%).

NB (for End of Year 2005) after the withdrawal was $0 (since it is a full withdrawal).

Total QB (i.e. QB1 + QB2, both for End of Year 2005) before withdrawal was $22,428.16 ($16,550.63 x 1.05 + 5,000 x 1.01, i.e. $16,550.63 was increased at 5% until the withdrawal is made and new contribution at the beginning of 2005 of $5,000 was increased at 1%).

Since the total QB (for End of Year 2005) is less than the NB (for End of Year 2005) immediately before the withdrawal ($22,428.16 < $23,137.24), the total QB (for End of Year 2005) will be reduced by the amount withdrawn ($23,137.24).

Total QB after withdrawal	=	$22,428.16 - $23,137.24
	=	- $709.08 (A negative QB does not mean that the member owes Principal money, rather it simply denotes that benefit exceeding the guaranteed amount has already been paid out.)

New guaranteed rate of 1% per annum will be applied to the total QB and any new contributions after the withdrawal. Qualifying period will be reset to zero and the counting of the qualifying period shall only recommence when new contributions are made so that NB is greater than zero. During the Year 2006, no new contribution is received and the total QB remains at

-$709.08 (i.e. the total QB (for End of Year 2005) and the total QB (for End of Year 2006) are the same). No interest is accrued to the QB during the Year 2006 as the total QB is negative. As of beginning of Year 2007, new contributions of $5,000 have been made. The total QB become positive at the beginning of Year 2007 and interest is accrued to the QB for the Year 2007.

Illustrative Example 11: The qualifying period is reset to zero as of 31 December 2005 upon full withdrawal from the fund and is suspended when the NB remains at zero. The qualifying period will only recommence when new contributions of $5,000 are made on 1 January 2007.

As of 31 December 2007 — member's employment is terminated. As the QB only becomes positive when new contributions of $5,000 are made on 1 January 2007, the qualifying period as at 31 December 2007 is 12 months. Member then makes a claim for his accrued benefits. Since the qualifying period is less than 36 months, there is no qualifying event. Actual redemption takes place on the first day of the following year and the NB for that day is the same as the NB for the previous day. The NB (for End of Year 2007) at the sum of $5,500 will be paid.

Scenario 7:

Assumptions:

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

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

Illustrations:

End of Year	Actual Annualised Return of the Fund	End of Year NB (reflects actual investments)	Qualifying Period (reflects period of investment)	Withdrawal made by member	End of Year QB 1 (5%) (contributions made on or before 30 September 2004 - subject to 5% rate of return)	End of Year QB 2 (1%) (contributions made after 30 September 2004 - subject to 1% rate of return)	End of Year Total QB (QB 1 + QB 2)
2002	1.00%	$5,050.00	12 months	$ -	$5,250.00	$ -	$5,250.00
2003	2.00%	$10,251.00	24 months	$ -	$10,762.50	$ -	$10,762.50
2004	3.00%	$15,708.53	36 months	$ -	$16,550.63	$ -	$16,550.63
#2005	7.00%	$ -	*0	$22,158.13 (full withdrawal)	$ -	$ -	$ -

\# This illustrates the position after a withdrawal.

* There is no qualifying period when the NB is zero

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

Illustrative Example 12: As of 31 December 2005, member requests full withdrawal (i.e. $22,158.13) and transfer the amount to another fund option. Some contributions were made before 30 September 2004 and some were made after 30 September 2004. Actual redemption takes place on the first day of the following year and the NB for that day is the same as the NB for the previous day.

NB (for End of Year 2005) before withdrawal was $22,158.13 ($15,708.53 x 1.07 + 5,000 x 1.07, i.e. $15,708.53 was increased at 7% until the withdrawal is made and new contribution at the beginning of 2005 of $5,000.00 was also increased at 7%).

Total QB (i.e. QB1 + QB2, both for End of Year 2005) before withdrawal was $22,428.16 ($16,550.63 x 1.05 + 5,000 x 1.01, i.e. $16,550.63 was increased at 5% until the withdrawal is made and new contribution at the beginning of 2005 of $5,000 was increased at 1%)).

NB (for End of Year 2005) after withdrawal = $22,158.13 - $22,158.13

= $0 (since it is a full withdrawal)

Since the total QB (for End of Year 2005) is greater than the NB (for End of Year 2005) immediately before the withdrawal ($22,428.16 > $22,158.13), the total QB (for End of Year 2005) after withdrawal will be reset to an amount equal to the NB (for End of Year 2005) after withdrawal.

Total QB after withdrawal = NB after withdrawal

= $0

New guaranteed rate of 1% per annum will be applied to the total QB and any subsequent contributions after the withdrawal. Qualifying period will be reset to zero and the counting of the qualifying period shall only recommence when new contributions are made so that NB is greater than zero.

Scenario 8:

Pro-rata Calculation of Qualifying Balance

Assumptions:

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

(b) **No redemption, switching or withdrawal has been made.**

Illustrations:

End of Year	Actual Annualised Return of the Fund	End of Year NB (reflects actual investments)	Qualifying Period (reflects period of investment)	End of Year QB 1 (5%) (contributions made on or before 30 September 2004 - subject to 5% rate of return)	End of Year QB 2 (1%) (contributions made after 30 September 2004 - subject to 1% rate of return)	End of Year Total QB (QB 1 + QB 2)
2002	1.00%	$2,525.00	12 months	$2,625.00	$ -	$2,625.00
2003	2.00%	$7,675.50	24 months	$8,006.25	$ -	$8,006.25

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

Employer makes a contribution of $2,500 at the beginning of each year starting from 1 January 2002.

Member makes a contribution of $2,500 at the beginning of each year starting from 1 January 2003.

Member was employed since 1 January 2002. The vesting scale of the employer's contributions is as follows:

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

Illustrative Example 13: As of 31 December 2003, member retires after attaining the normal retirement age of 65. Member then makes a claim for his accrued benefits. All relevant contributions were made before 30 September 2004. Actual redemption takes place on the first day of the following year and the NB for that day is the same as the NB for the previous day.

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

NB of member's contributions = $2,550.00 ($2,500 x (1+ 2%))

NB of employer's contributions = $5,125.50 ($2,500 x (1 + 1%) x (1 + 2%) + $2,500 x (1 + 2%))

Total QB of member's contributions = $2,659.88 ($8,006.25 x ($2,550.00/$7,675.50))

(where $7,675.50 is the sum of $2,550 and $5,125.50)

Total QB of employer's contributions = $5,346.37 ($8,006.25 x ($5,125.50/$7,675.50))

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

Therefore, $3,194.52 will be paid to member ($2,659.88 + 10% x $5,346.37) and $4,811.73 (90% x $5,346.37) will be paid to employer.

Scenario 9:

Employer makes a claim for Severance Payment

Assumptions:

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

(b) Out of the annual contribution of $5,000, $2,500 is contributed by the employer and $2,500 is contributed by the employee. All contributions are fully vested in the employee.

(c) No redemption, switching or withdrawal has been made.

(d) Member's employment is terminated at End of Year 2005. Employer makes a claim for severance payment paid.

Illustrations:

End of Year	Actual Annualised Return of the Fund	End of Year NB (reflects actual investments)	Qualifying Period (reflects period of investment)	End of Year QB 1 (5%) (contributions made on or before 30 September 2004 - subject to 5% rate of return)	End of Year QB 2 (1%) (contributions made after 30 September 2004 - subject to 1% rate of return)	End of Year Total QB (QB 1 + QB 2)
2002	1.00%	$5,050.00	12 months	$5,250.00	$ -	$5,250.00
2003	2.00%	$10,251.00	24 months	$10,762.50	$ -	$10,762.50
2004	9.00%	$16,623.59	36 months	$16,550.63	$ -	$16,550.63
2005	1.00%	$21,839.83	48 months	$17,378.16	$5,050.00	$22,428.16

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

Illustrative Example 14: As of 31 December 2005, member's employment is terminated. Employer pays a severance payment of $5,000 to employee and claims a set off payment from the Trustee. Member then makes a claim for his accrued benefits. Actual redemption takes place on the first day of the following year and the NB for that day is the same as the NB for the previous day.

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

QB1 + QB2 = $22,428.16

= ($5,000 x 1.05 x 1.05 x 1.05 x 1.05 + $5,000 x 1.05 x 1.05 x 1.05 + $5,000 x 1.05 x 1.05 + $5,000 x 1.01)

NB = $21,839.83

= ($5,000 x 1.01 x 1.02 x 1.09 x 1.01 + $5,000 x 1.02 x 1.09 x 1.01 + $5,000 x 1.09 x 1.01 + $5,000 x 1.01)

Therefore, the employee will be entitled to $22,428.16. However, the employer has made a claim of $5,000 and such an amount shall be paid to the employer from the pro-rata value of the total QB which is attributable to the employer's contributions.

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

NB of member's contributions	=	$10,919.92 ($2,500 x 1.01 x 1.02 x 1.09 x 1.01 + $2,500 x 1.02 x 1.09 x 1.01 + $2,500 x 1.09 x 1.01 + $2,500 x 1.01)
NB of employer's contributions	=	$10,919.92 ($2,500 x 1.01 x 1.02 x 1.09 x 1.01 + $2,500 x 1.02 x 1.09 x 1.01 + $2,500 x 1.09 x 1.01 + $2,500 x 1.01)
Total QB of member's contributions	=	$11,214.08 ($22,428.16 x (10,919.92/21,839.83))
Total QB of employer's contributions	=	$11,214.08 ($22,428.16 x (10,919.92/21,839.83))

The employer's claim of $5,000 will be paid to the employer from the total QB of employer's contributions (i.e. $11,214.08). As a result, the employee will only receive an amount of $17,428.16 (i.e. $11,214.08 + ($11,214.08 - $5,000)) and the employer will receive the set-off payment of $5,000.