Principal MPF Scheme Series 500

Explanatory Memorandum

一步步致富
Steady Growth Will Win

Principal® 信安

Principal Asset Management
Company (Asia) Limited
11/F, Island Place Tower
510 King's Road
North Point, Hong Kong
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Fax : (852) 2827 1707
Website : www.principal.com.hk

28 August 2009

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, employee members, self-employed persons and preserved account holders of Principal MPF Scheme Series 500. Participating employers should notify their employees of the content of this notice upon receipt.

Dear Participating Employers and Scheme Members,

Re: Principal MPF Scheme Series 500 (the "Scheme")

Thank you for your continual support to the Principal MPF Scheme Series 500. We would like to inform you that the following changes shall be made to the Scheme :

(I) Amendments to the Explanatory Memorandum

(a) Name change in respect of the Capital Preservation Fund
With effect from 30 September 2009, the Capital Preservation Fund shall be renamed as MPF Conservative Fund. All references to "Capital Preservation Fund" in the Explanatory Memorandum shall be amended to "MPF Conservative Fund".

The above change will not affect the investment objectives or fees and charges of the fund.

(b) Change of Risk and Return Profile of the Stable Growth Fund
With immediate effect, the last paragraph of the Stable Growth Fund on page 9 shall be deleted in its entirety and replaced by the following:

"Risk and Return Profile: Investors should regard the Stable Growth Fund as a low to moderate risk investment. The Investment Manager expects the return of the Stable Growth Fund over the long term to exceed the Hong Kong inflation rate."

(c) Others
The following important notes shall be added on the reverse side of the front cover of the Explanatory Memorandum with immediate effect:

IMPORTANT NOTES

1. Principal MPF Scheme Series 500 ("Scheme") is an MPF Scheme.
2. All constituent funds under this Scheme invest solely or partly in insurance policies issued by Principal Insurance Company (Hong Kong) Limited ("Principal"). Your investment in these funds is therefore subject to the credit risk of Principal.
3. Principal, the Guarantor of the Guaranteed Fund under this Scheme, will only provide a guarantee of capital and a prescribed guarantee rate of return in certain specified circumstances. Please refer to page 31 of this Explanatory Memorandum under the section "Provision of Guarantee" for details of the guarantee conditions.
4. Fees and charges of a MPF conservative fund can be deducted from either (i) the assets of the fund or (ii) members' account by way of unit deduction. The MPF Conservative Fund uses method (i) and, therefore, unit prices/net asset value/fund performance quoted have incorporated the impact of fees and charges.
5. You should consider your own risk tolerance level and financial circumstances before making any investment choices. When, in your selection of funds, you are in doubt as to whether a certain fund is suitable for you (including whether it is consistent with your investment objectives), you should seek financial and/or professional advice and choose the fund(s) most suitable for you, taking into account your own circumstances.
6. In the event that you do not make any investment choices, please be reminded that any contributions made and/or benefits transferred into this Scheme will be invested into the Stable Growth Fund, and such fund may not necessarily be a suitable investment for you.

(II) Amendment to the Trust Deed

The following amendment shall be made to the Trust Deed of the Scheme by the Trustee:

(a) With effect from 30 September 2009, the Capital Preservation Fund shall be renamed as MPF Conservative Fund. All references to "Capital Preservation Fund" in the Trust Deed shall be amended to "MPF Conservative Fund".

Participating Employers and Scheme Members may request a copy of the latest Explanatory Memorandum by contacting our Customer Hotline at the telephone number set out below. A copy of the latest Trust Deed will also be available for inspection at our office at 11/F, Island Place Tower, 510 King's Road, North Point, Hong Kong during normal office hours.

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

Yours faithfully,

Principal Asset Management Company (Asia) Limited

This is a computer generated printout and no signature is required.

PRINCIPAL MPF SCHEME SERIES 500
信安强積金計劃 500 系列 **(the "SCHEME")**
THIRD ADDENDUM

This Third Addendum should be read in conjunction with and form part of the Explanatory Memorandum dated 17 February 2006 (the "**Explanatory Memorandum**"), the First Addendum dated 30 November 2007 and the Second Addendum dated 4 September 2008 for the Principal MPF Scheme Series 500. All capitalised terms in this Third Addendum shall have the same meaning as in the Explanatory Memorandum, unless otherwise stated.

The change set out in Section (A) below shall take effect from 30 September 2009:

(A) <u>Name change in respect of the Capital Preservation Fund</u>

The Capital Preservation Fund shall be renamed as MPF Conservative Fund. All references to "Capital Preservation Fund" in the Explanatory Memorandum shall be amended to "MPF Conservative Fund".

The above change will not affect the investment objectives or fees and charges of the fund.

(B) <u>Change of Risk and Return Profile of Stable Growth Fund</u>

With immediate effect, the last paragraph of the Stable Growth Fund on page 9 shall be deleted in its entirety and replaced by the following:

"Risk and Return Profile: Investors should regard the Stable Growth Fund as a low to moderate risk investment. The Investment Manager expects the return of the Stable Growth Fund over the long term to exceed the Hong Kong inflation rate."

(C) <u>Others</u>

The following important notes shall be added on the reverse side of the front cover of the Explanatory Memorandum with immediate effect:

<u>IMPORTANT NOTES</u>

1. Principal MPF Scheme Series 500 ("Scheme") is an MPF Scheme.
2. All constituent funds under this Scheme invest solely or partly in insurance policies issued by Principal Insurance Company (Hong Kong) Limited ("Principal"). Your investment in these funds is therefore subject to the credit risk of Principal.
3. Principal, the Guarantor of the Guaranteed Fund under this Scheme, will only provide a guarantee of capital and a prescribed guarantee rate of return in certain specified circumstances. Please refer to page 31 of this Explanatory Memorandum under the section "Provision of Guarantee" for details of the guarantee conditions.
4. Fees and charges of a MPF conservative fund can be deducted from either (i) the assets of the fund or (ii) members' account by way of unit deduction. The MPF Conservative Fund uses method (i) and, therefore, unit prices/net asset value/fund performance quoted have incorporated the impact of fees and

charges.

5. You should consider your own risk tolerance level and financial circumstances before making any investment choices. When, in your selection of funds, you are in doubt as to whether a certain fund is suitable for you (including whether it is consistent with your investment objectives), you should seek financial and/or professional advice and choose the fund(s) most suitable for you, taking into account your own circumstances.
6. In the event that you do not make any investment choices, please be reminded that any contributions made and/or benefits transferred into this Scheme will be invested into the Stable Growth Fund, and such fund may not necessarily be a suitable investment for you.

28 August 2009

Principal Asset Management Company (Asia) Limited

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5/F, Shui On Centre
6-8 Harbour Road
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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, employee members, self-employed persons and preserved account holders of Principal MPF Scheme Series 500. Participating employers should notify their employees of the content of this notice upon receipt.

Dear Participating Employers and Scheme Members,

Re: Principal MPF Scheme Series 500 信安強積金計劃 500 系列 (the "Scheme")

Thank you for your continual support to the Principal MPF Scheme Series 500.

We would like to inform you that the following changes will be made to the Scheme :

(a) with effect from 4 December 2008, the investment policy of the Guaranteed Fund will be changed. the major changes are set out below :

(i) Currently, the approved pooled investment fund (the "**Underlying Fund**") invested by the Guaranteed Fund invests directly in a portfolio of fixed income and equity securities; after the proposed changes, it will in turn invest in two or more approved pooled investment funds and/or approved index-tracking collective investment schemes; and

(ii) the target ranges of asset allocation and geographic allocation of the Underlying Fund will be changed as follows :

(1) 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

(2) 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%), Europe (0-50%) and Other Countries (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 Second Addendum.

The above change will not result in any increase in the fees and expenses borne by the Guaranteed Fund or payable by the members.

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; and

(b) with immediate effect, amendments will be made to the Explanatory Memorandum of the Scheme to reflect the recent legislative changes in the definition of "relevant income". "Relevant income" will include housing allowance and other housing benefit with effect from 1 November 2008.

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 Explanatory Memorandum of the Scheme. Please read the Second Addendum carefully.

Participating Employers and Scheme Members may request a copy of the latest Principal Brochure by contacting our Customer Hotline at the telephone number set out below. A copy of the latest Trust Deed will also be available for inspection at our offices at Unit 1001-1003, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong during normal office hours.

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

Yours faithfully,

Principal Asset Management Company (Asia) Limited

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PRINCIPAL MPF SCHEME SERIES 500
信安强積金計劃 500 系列 **(the "SCHEME")**
SECOND ADDENDUM

This Second Addendum should be read in conjunction with and forms part of the Explanatory Memorandum dated 17 February 2006 (the "**Explanatory Memorandum**") and the Addendum dated 30 November 2007 for the Principal MPF Scheme Series 500. All capitalised terms in this Second Addendum shall have the same meaning as in the Explanatory Memorandum, unless otherwise stated.

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

(A) <u>Change of Investment Structure</u>

(a) The "Guaranteed Fund" sub-section of the table under the "Constituent Funds" section on page 7 shall be amended by deleting the description under the "Investment Structure" column in its entirety and replaced by the following:

"investment in a single Approved Pooled Investment Fund (in the form of an insurance policy) which in turn invest in two or more Approved Pooled Investment Funds and/or Approved Index-Tracking Funds".

(b) The "Guaranteed Fund" section on pages 8 to 9 shall be amended as follows :

(i) by deleting the "Investment Policy" sub-section in its entirety and replacing it by the following:

"*Investment Policy*: This Guaranteed Fund will invest in an Approved Pooled Investment Fund (the "**Underlying Fund**") which is an insurance policy and is also managed by the Investment Manager. The Underlying Fund will invest in two or more Approved Pooled Investment Funds and/or Approved Index-Tracking Funds. In selecting these Approved Pooled Investment Funds and Approved Index-Tracking Funds, the Investment Manager will seek to achieve the objectives of the Guaranteed Fund.

The selected Approved Pooled 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 fixed income 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 geographic allocation (as set out below) of the Guaranteed Fund . Currently, the Hong Kong dollar is pegged to the US dollar but the Guaranteed

Fund makes no assurance that this relationship will continue, necessitating flexibility for the Investment Manager to choose assets in other currencies.

The Guaranteed Fund will not enter into financial futures and options contracts for any purposes and will not engage in securities lending. The Underlying Fund may enter into financial futures or options contracts, but only for the purpose of hedging.

The Underlying Fund is restricted to investing within the following asset and geographic allocations (as a percentage of the total Underlying Fund):

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

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

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

(ii) by deleting the first and second sentences of the "Risk and Return Profile" sub-section and replacing them by the following :

"The Guaranteed 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."

(c) Paragraph (k) of the "Guaranteed Fund" section on page 26 shall be amended by inserting the words "(including any further underlying investment funds and Approved Index-Tracking Funds)" after the words "underlying Approved Pooled Investment Fund" in the first sentence.

(d) The diagram depicting the investment structure of the Constituent Funds in Appendix II on page 49 shall be deleted in its entirety and replaced by the diagram in the Annex to this Second Addendum.

The changes set out in Sections (B) to (C) below shall take immediate effect:

(B) Definition of "Relevant Income"

The definition of "relevant income" under the "Mandatory Contributions" section on page 14 shall be amended as follows:

(a) By deleting the words " "**relevant income**" is defined in the MPF Ordinance to mean:-" and replacing them by " "**relevant income**" is defined in the MPF Ordinance, as amended from time to time. Before 1 November 2008, **"relevant income"** means:-".

(b) By inserting the following after paragraph (b) :

"With effect from 1 November 2008, **"relevant income"** will also include housing allowance and other housing benefit as amended in the Mandatory Provident Fund Schemes (Amendment) Ordinance 2008."

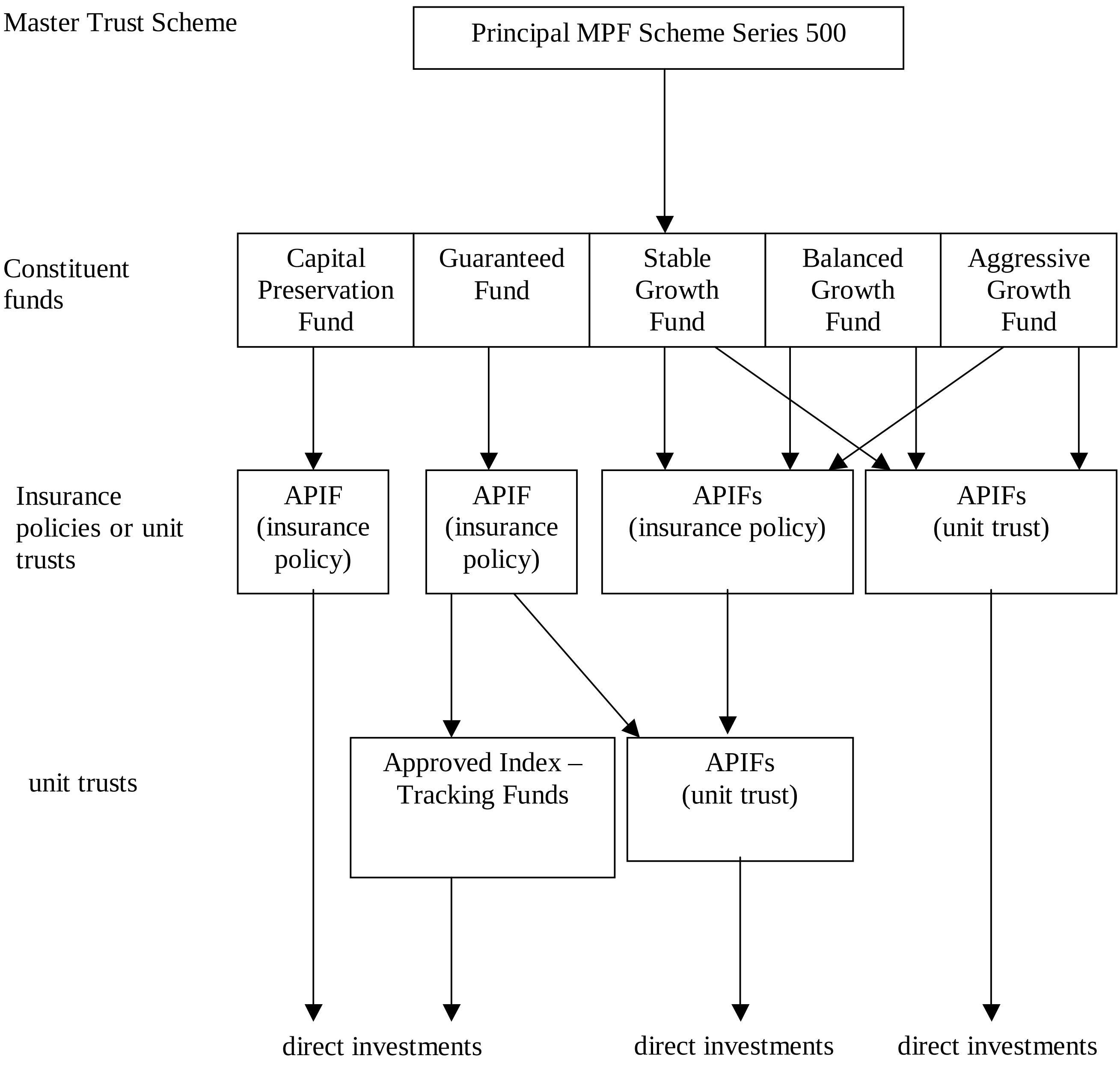
(C) Other Amendments

The "Capital Preservation Fund", "Stable Growth Fund", "Balanced Growth Fund" and "Aggressive Growth Fund" sections on pages 8 to 10 shall be amended by deleting all references to "(Note: the above allocations are target ranges only. Actual allocations may vary with market conditions." in their entirety and replacing them by the following:

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

4 September 2008

Annex



Master Trust Scheme
Principal MPF Scheme Series 500
Constituent funds
Capital Preservation Fund
Guaranteed Fund
Stable Growth Fund
Balanced Growth Fund
Aggressive Growth Fund
Insurance policies or unit trusts
APIF (insurance policy)
APIF (insurance policy)
APIFs (insurance policy)
APIFs (unit trust)
unit trusts
Approved Index – Tracking Funds
APIFs (unit trust)
direct investments
direct investments
direct investments

Principal Fund Management (Hong Kong) Limited

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30 November 2007

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

This notice should be read by all the participating employers, employee members, self-employed persons and preserved account holders of the Principal MPF Scheme Series 500. Participating employers should notify their employees of the content of this notice upon receipt.

Dear Scheme Participants,

Re: Principal MPF Scheme Series 500 信安強積金計劃 500 系列 (the "Scheme")

Thank you for your continual support to the Principal MPF Scheme Series 500.

We would like to inform you that the following changes to the Scheme will take effect from **31 December 2007** :

(a) As you may be aware, Principal Fund Management (Hong Kong) Limited ("**PFM**"), the sponsor and investment manager of the Scheme, was acquired by Principal Asset Management Company (Asia) Limited ("**PAM**") at the end of January 2004 and became a subsidiary of the Principal Financial Group, Inc. To capitalize on such a change and the expertise of the Principal Financial Group, Inc., it is our strategy to merge and consolidate the operations of PFM into PAM. In view of such a strategy, PAM will replace PFM as the sponsor and investment manager of the Scheme. Please be assured that the change of sponsor and investment manager will not result in any changes in the investment objectives and policies of the constituent funds of the Scheme, fees and charges payable by members under the Scheme, investment choice of the members under the Scheme and expertise of the investment manager; and

(b) The paragraph relating to the issuance of Class T Units in the Explanatory Memorandum will be revised so that with the consent from the sponsor, such class of Units may also be made available to other amounts invested in or contributed to the Scheme.

Amendments will be made to the Explanatory Memorandum relating to the Scheme to reflect the above changes accordingly. In addition, there are some other minor amendments to the Explanatory Memorandum which shall not have any material impact on the members of the Scheme. Please refer to the Addendum attached for details of the amendments. The Addendum should be read in conjunction with and forms part of the Explanatory Memorandum of the Scheme. Please read the Addendum carefully.

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

Yours faithfully,

Principal Fund Management (Hong Kong) Limited

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PRINCIPAL MPF SCHEME SERIES 500
信安强積金計劃 500 系列 **(the "SCHEME")**
ADDENDUM

This Addendum should be read in conjunction with and forms part of the Explanatory Memorandum dated 17 February 2006 (the **"Explanatory Memorandum"**) of the Scheme. All capitalised terms in this Addendum have the same meaning as in the Explanatory Memorandum, unless otherwise stated.

Principal Fund Management (Hong Kong) Limited accepts responsibility for the information contained in this Addendum as being accurate at the date of publication.

Effective from **31 December 2007**, the Explanatory Memorandum shall be amended as follows :

<u>Change of Sponsor and Investment Manager</u>

Principal Asset Management Company (Asia) Limited shall replace Principal Fund Management (Hong Kong) Limited as the sponsor and investment manager of the Scheme.

Following the above change, the Explanatory Memorandum relating to the Scheme shall be amended as follows:

(a) Unless otherwise provided in this Addendum, all references to "Principal Fund Management (Hong Kong) Limited" shall be replaced by "Principal Asset Management Company (Asia) Limited".

(b) The "Sponsor and Investment Manager" section on page 4 shall be deleted in its entirety and replaced by the following:

"**Sponsor and Investment Manager**
Principal Asset Management Company (Asia) Limited
Unit 1001-3, Central Plaza
18 Harbour Road
Wanchai, Hong Kong"

(c) The "Sponsor and Investment Manager" sub-section under the "Management and Administration" section on page 12 shall be deleted in its entirety and replaced by the following:

"**Sponsor and Investment Manager**
Principal Asset Management Company (Asia) Limited is the Sponsor and Investment Manager of the Master Trust. It is a company incorporated in Hong Kong in 1997 and is a subsidiary of the Principal Financial Group, Inc. which is a Fortune 500 company listed on the New York Stock Exchange. Principal Asset Management Company (Asia) Limited is specialized in portfolio management and asset management businesses. Principal Asset Management Company (Asia) Limited is devoted to providing reliable and quality services to its clients and is committed to be a professional fund management house. Principal Asset Management Company (Asia) Limited licensed with the Commission in Hong Kong to undertake types 4 and 9 regulated activities and

is the investment manager for a number of mandatory provident fund schemes and approved pooled investment funds in Hong Kong. As of 31 August 2007, the total assets under management of Principal Asset Management Company (Asia) Limited amounted to approximately HK$14.6 billion."

(d) Note 1 of the "Fees and Charges Payable out of the First Level Underlying Approved Pooled Investment Funds" table on page 26 shall be deleted.

(e) Paragraph (a) of the "Material Contracts" section on page 30 shall be deleted in its entirety and replaced by the following :

"(a) an agreement dated as of 31 January 2000 as amended by a supplemental agreement dated 28 November 2000, a deed of novation dated 29 April 2003 and a deed of novation dated 22 November 2007 appointing the Investment Manager to manage the assets of the Master Trust."

Change of Definition of "Class T Units"

(f) The first sub-paragraph of the second paragraph of the "Investment of Contributions in Constituent Funds" section on page 14 shall be deleted in its entirety and replaced by the following:

" ● Class T Units will be issued in respect of (i) amounts transferred into the Master Trust from other schemes in respect of the Members and (ii) with the consent from the Sponsor, amounts switched into this class from other classes of Units held in the accounts of the relevant Members and/or new contributions made to the Master Trust in respect of the relevant Members. Class T Units will bear a lower trustee and administration fee and (with the exception of the Capital Preservation Fund) a lower or no investment management fee."

Other Changes

(g) The title of the table on page 21 shall be deleted and replaced by "(C) FUND OPERATING CHARGES & EXPENSES OF CONSTITUENT FUND".

(h) The first sentence of the paragraph under the "On-going Cost Illustrations" section on page 27 shall be deleted in its entirety and replaced by the following :

"A document that illustrates the on-going costs on contributions to the constituent funds in this scheme (except for the Capital Preservation Fund) is currently available for distribution with the Explanatory Memorandum."

(i) The first sentence of the second paragraph of the "Accounts, Reports and Statements" section on page 29 shall be deleted in its entirety and replaced by the following :

"As soon as practicable after each financial year, the Trustee will prepare a consolidated report consisting of (i) the audited accounts of the Master Trust, (ii) the Trustee's report on the Master Trust for the relevant financial year and (iii) the Investment Manager's investment report for the relevant financial year."

30 November 2007

ILLUSTRATIVE EXAMPLE FOR
PRINCIPAL CAPITAL PRESERVATION FUND OF THE
PRINCIPAL MPF SCHEME SERIES 500
Class A Units

17 February 2006

PURPOSE OF THE EXAMPLE

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

THIS EXAMPLE ASSUMES THAT :

Your MPF Account Activities

(a) your monthly relevant income is $8,000

(b) you have put all your accrued benefits into the Capital Preservation Fund; you have not switched your accrued benefits to other constituent funds during the financial period

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

Your Company Profile

(d) 5 employees (including yourself) of your employer participate in this Scheme

(e) the monthly relevant income of each employee is $8,000

(f) no voluntary contribution is made

(g) each of the other 4 employees has the same MPF account activities as yours

Investment Return and Savings Rate

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

(i) the prescribed savings rate is 3.25% per annum throughout the financial period.

Based on these assumptions, the ***total amounts of annual fees*** you need to pay under this Scheme (including those payable to the underlying approved pooled investment fund) in one financial period would be : **<u>$66</u>**.

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

Investment involves risk, the value of the fund may go up or down. For further details of the fund, please refer to the Explanatory Memorandum.

ILLUSTRATIVE EXAMPLE FOR
PRINCIPAL CAPITAL PRESERVATION FUND OF THE
PRINCIPAL MPF SCHEME SERIES 500
Class T Units

17 February 2006

PURPOSE OF THE EXAMPLE

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

THIS EXAMPLE ASSUMES THAT :

Your MPF Account Activities

(a) your monthly relevant income is $8,000

(b) you have put all your accrued benefits into the Capital Preservation Fund; you have not switched your accrued benefits to other constituent funds during the financial period

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

Your Company Profile

(d) 5 employees (including yourself) of your employer participate in this Scheme

(e) the monthly relevant income of each employee is $8,000

(f) no voluntary contribution is made

(g) each of the other 4 employees has the same MPF account activities as yours

Investment Return and Savings Rate

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

(i) the prescribed savings rate is 3.25% per annum throughout the financial period.

Based on these assumptions, the ***total amounts of annual fees*** you need to pay under this Scheme (including those payable to the underlying approved pooled investment fund) in one financial period would be : <u>**$60**</u>.

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

Investment involves risk, the value of the fund may go up or down. For further details of the fund, please refer to the Explanatory Memorandum.

ON-GOING COST ILLUSTRATIONS FOR
PRINCIPAL MPF SCHEME SERIES 500

Issued 30 September 2009

ABOUT THIS ILLUSTRATION

This is an illustration of the total effect of fees and charges on each HK$1,000 contributed in the funds named below. The fees and charges of a fund are one of the factors that you should consider in making investment decisions across funds. You should however also consider other important information such as the risks of the fund, the nature of the fund, the attributes of relevant parties, the range and quality of services being offered and, most importantly, your own personal circumstances and expectations. The information about fees and charges set out in this table is intended to help you compare the cost of investing in one constituent fund with the cost of investing in other constituent funds.

The illustration has been prepared based on some assumptions that are the same for all funds. The illustration assumes the following:

(a) a gross contribution of HK$1,000 is made in the respective constituent fund now and, being eligible to do so, you withdraw all of your accrued benefits arising from this contribution at the end of each time period indicated;

(b) for the purpose of this illustration only, the contribution has a 5% gross return each year [it is important that you note that the assumed rate of return used in this document for illustrative and comparative purposes only. The return is neither guaranteed nor based on past performance. The actual return may be different.]; and

(c) the expenses of the funds (expressed as a percentage called "fund expense ratio" below) remain the same for each fund for all the periods shown in this illustration.

BASED ON THE ABOVE ASSUMPTIONS, YOUR COSTS ON EACH HK$1,000 CONTRIBUTED ARE ILLUSTRATED IN THE FOLLOWING TABLE. PLEASE NOTE THAT THE ACTUAL COSTS WILL DEPEND ON VARIOUS FACTORS AND MAY BE DIFFERENT FROM NUMBERS SHOWN BELOW.

Principal MPF Scheme Series 500		**Fund expense ratio for financial period ended 03/09**	**Cost on each HK$1,000 contributed**		
			After 1 year (HK$)	**After 3 years (HK$)**	**After 5 years (HK$)**
Guaranteed Fund	Class G	3.19%	33	102	173
Stable Growth Fund	Class A	2.07%	22	67	115
	Class B	1.86%	20	60	104
	Class C	1.77%	19	58	99
	Class T	1.62%	17	53	91
Balanced Growth Fund	Class A	2.07%	22	67	115
	Class B	1.87%	20	61	104
	Class C	1.77%	19	58	99
	Class T	1.62%	17	53	91
Aggressive Growth Fund	Class A	2.08%	22	67	116
	Class B	1.88%	20	61	105
	Class C	1.78%	19	58	99
	Class T	1.64%	17	53	92

Note:

This example does not take into account any fee rebates that may be offered to certain employers / members of the scheme.

IMPORTANT INFORMATION

The Sponsor accepts responsibility for the information contained in this Explanatory Memorandum as being accurate at the date of publication. However, neither the delivery of this Explanatory Memorandum nor the offer of or agreement to participate in the Master Trust shall under any circumstances constitute a representation that the information contained in this Explanatory Memorandum is correct as of any time subsequent to such date. This Explanatory Memorandum may from time to time be updated. Intending participants in the Master Trust should ask the Sponsor if any supplements to this Explanatory Memorandum or any later Explanatory Memorandum have been issued.

The Master Trust has been authorised by the Securities and Futures Commission and registered with the Mandatory Provident Fund Schemes Authority in Hong Kong. In granting such authorisation and registration, neither the Securities and Futures Commission nor the Mandatory Provident Fund Schemes Authority takes any responsibility for the financial soundness of the Master Trust or for the accuracy of any of the statements made or opinions expressed in this Explanatory Memorandum. Such authorisation and registration does not imply that participation in the Master Trust is recommended by the Securities and Futures Commission or the Mandatory Provident Fund Schemes Authority.

No action has been taken to permit an offering of participation in the Master Trust or the distribution of this Explanatory Memorandum in any jurisdiction where action would be required for such purposes other than Hong Kong. Accordingly, this Explanatory Memorandum may not be used in any jurisdiction where its distribution is not authorised.

17 February 2006

TABLE OF CONTENTS

Important – If you are in doubt about the meaning or effect of the contents of this document, you should seek independent professional advice.

DIRECTORY OF PARTIES

Sponsor and Investment Manager
PRINCIPAL FUND MANAGEMENT (HONG KONG) LIMITED
(previously known as Dao Heng Fund Management Limited)
Unit 1001-3, Central Plaza
18 Harbour Road
Hong Kong

Trustee and Custodian
PRINCIPAL TRUST COMPANY (ASIA) LIMITED
Units 1001-1003, Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Administrator and Guarantor
PRINCIPAL INSURANCE COMPANY (HONG KONG) LIMITED
Unit 1001-1003 Central Plaza
18 Harbour Road
Wanchai
Hong Kong

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DEFINITIONS

"Administrator"	Principal Insurance Company (Hong Kong) Limited or any other eligible person(s) appointed by the Trustee as the administrator(s) of the Master Trust from time to time
"Approved Index-Tracking Fund"	an index-tracking collective investment scheme approved by the Authority for investment by provident fund schemes registered under the MPF Ordinance
"Approved Pooled Investment Fund"	a collective investment scheme approved by the Authority pursuant to the MPF Ordinance for investment by provident fund schemes registered under the MPF Ordinance
"Authority"	the Mandatory Provident Fund Schemes Authority of Hong Kong
"Business Day"	a day (other than Saturday) on which banks in Hong Kong are open for normal banking business
"Commission"	the Securities and Futures Commission of Hong Kong
"Constituent Fund"	a separate pool of assets of the Master Trust, which is invested and administered separately from other assets of the Master Trust
"Guarantor"	Principal Insurance Company (Hong Kong) Limited as guarantor of the Approved Pooled Investment Fund in which the Guaranteed Fund invests
"HK$" and **"HK dollars"**	the currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"I**nvestment Manager"**	Principal Fund Management (Hong Kong) Limited in its capacity as investment manager of the Master Trust
"Master Trust"	Principal MPF Scheme Series 500
"Member"	a member of the Master Trust being, (a) a self-employed person who participates in the Master Trust or (b) an employee of a participating employer who applies for and is granted membership of the Master Trust or (c) any other eligible person who participates in the Master Trust
"MPF Ordinance"	the Mandatory Provident Fund Schemes Ordinance of Hong Kong
"Sponsor"	Principal Fund Management (Hong Kong) Limited
"Trustee"	Principal Trust Company (Asia) Limited in its capacity as trustee of the Master Trust
"Trust Deed"	the trust deed dated as of 31 January 2000 as amended establishing the Master Trust

"Unit"	where there is only one class of Units in issue in relation to a particular Constituent Fund, one undivided share in the Constituent Fund to which the class of Units relates. Where more than one class of Units is in issue in relation to a Constituent Fund, the number of undivided shares of that Constituent Fund represented by a Unit of a particular class is adjusted to take account of the different terms of issue of the different classes of Units. A fraction of a Unit of the same class shall represent the corresponding fraction of an undivided share in the relevant Constituent Fund or part of the relevant Constituent Fund
"Valuation Date"	every Business Day or such other day or days as the Trustee, with the approval of the Sponsor, may determine from time to time either generally or in relation to a particular Constituent Fund

ABOUT PRINCIPAL MPF SCHEME SERIES 500

Principal MPF Scheme Series 500 is a master trust established by a trust deed dated as of 31 January 2000. It is established under and governed by the laws of Hong Kong.

How to Join

Employers and self-employed persons and all other eligible persons can join the Master Trust by executing a Participation Agreement. Under the Participation Agreement, they agree to be bound by the terms of the Trust Deed and (if applicable) to make mandatory contributions to the Master Trust. They may also agree to make additional voluntary contributions. A sample Participation Agreement may be obtained from the Sponsor.

Contributions and Benefits

Members who are employees or self-employed persons and who are not less than 18 but below 65 years of age and the employers of such Members must make mandatory contributions to the Master Trust in accordance with the MPF Ordinance. They can also choose to make additional voluntary contributions, either on a regular basis or from time to time. The Trustee will apply contributions made by or on behalf of a Member to acquire Units in the Constituent Funds for the account of such Member.

The benefits payable to a Member on retirement or in other allowable circumstances are dependent on the contributions paid during the Member's period of membership of the Master Trust and the investment return achieved on those contributions during the period and, in the case of contributions invested in the Guaranteed Fund, whether such contributions qualify to receive the benefit of the guarantee.

Investment of Contributions

Contributions are invested in one or more of the Constituent Funds established under the Master Trust, in accordance with instructions given from time to time by Members.

CONSTITUENT FUNDS

Under the Trust Deed, the Trustee is required to establish and maintain separate Constituent Funds in which contributions may be invested. The Constituent Funds are notional funds established within the Master Trust and are only available for investment by Members.

The Master Trust currently offers 5 Constituent Funds for investment, listed below:–

Name of Constituent Fund	Fund Type	Investment Structure
Capital Preservation Fund	money market fund	investment in a single Approved Pooled Investment Fund (in the form of an insurance policy) which in turn will make direct investments
Guaranteed Fund	guaranteed fund	investment in a single Approved Pooled Investment Fund (in the form of an insurance policy) which in turn will make direct investments
Stable Growth Fund	mixed assets fund	investment in 2 or more Approved Pooled Investment Funds (in the form of an insurance policy or a unit trust), each of which may in turn make direct investments or invest in 1 or more Approved Pooled Investment Funds (in the form of a unit trust)
Balanced Growth Fund	mixed assets fund	investment in 2 or more Approved Pooled Investment Funds (in the form of an insurance policy or a unit trust), each of which may in turn make direct investments or invest in 1 or more Approved Pooled Investment Funds (in the form of a unit trust)
Aggressive Growth Fund	equity fund	investment in 2 or more Approved Pooled Investment Funds (in the form of an insurance policy or a unit trust), each of which may in turn make direct investments or invest in 1 or more Approved Pooled Investment Funds (in the form of a unit trust)

A diagram depicting the investment structure of the Constituent Funds is set out below in the Appendix II to this Explanatory Memorandum.

Class G Units will be issued in relation to the Guaranteed Fund. Class A Units, Class B Units, Class C Units and Class T Units may be issued in relation to each other Constituent Fund (for further details, see "Investment of Constituent Funds in different classes of Units" under "Contributions" below. The different classes of Units are subject to different levels of fees.

Investment Objectives and Policies

Each Constituent Fund has a separate and distinct investment objective and policy, as described below.

Investors should note that the statements of expected return for each of the Constituent Funds set out below represent the Investment Manager's expectations based on the Investment Manager's past experience. However, there is no guarantee that such returns will be achieved. In addition, the return of a Constituent Fund over the short term may be greater than or less than the return of a Constituent Fund over the long term, due to market fluctuations and other factors.

Capital Preservation Fund

Investment Objective: To preserve capital with minimal risk.

Investment Policy: The Capital Preservation Fund seeks to provide investors with a high degree of security. The Capital Preservation Fund invests in an Approved Pooled Investment Fund which in turn invests in a portfolio of bank deposits, short duration securities and high quality money market instruments denominated in Hong Kong Dollar. The underlying Approved Pooled Investment Fund will normally invest 0 to 95% of its net asset value in certificates of deposits, 0 to 95% of its net asset value in debt securities and 0 to 100% of its net asset value in cash & short-term investments such as bills and deposits. The exposure of the Capital Preservation Fund to capital gains and losses associated with interest rate fluctuations is mitigated because it will indirectly invest mainly in a variety of relatively short duration securities and bank deposits. The Capital Preservation Fund will not enter into financial futures and options contracts for any purposes and will not engage in securities lending.

(Note: the above allocations are target ranges only. Actual allocations may vary with market conditions.)

Risk and Return Profile: Investors should regard the Capital Preservation Fund as a minimal risk investment. The Investment Manager expects the return of the Capital Preservation Fund over the long term to be in line with the interest rate payable from time to time by major banks in Hong Kong on Hong Kong dollar savings accounts.

Guaranteed Fund

Investment Objective: To provide a competitive long-term total rate of return, while also providing a minimum guaranteed average annual return over the career of the Member.

Investment Policy: The Guaranteed Fund will invest through an Approved Pooled Investment Fund (the **"Underlying Fund"**) guaranteed by Principal Insurance Company (Hong Kong) Limited (the **"Guarantor"**) in equity securities including (but not limited to) common stock, warrants, and preferred stock, denominated in HK dollars or US dollars and in fixed income securities denominated in HK dollars or US dollars. Fixed income securities include sovereign, state, regional, and corporate bonds, convertible bonds, floating rate notes, time deposits and certificates of deposit. The manager of the Underlying Fund is Principal Asset Management Company (Asia) Limited of Unit 1001-1003 Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

The Underlying Fund is restricted to investing within the following asset and geographical allocations (as a percentage of the total Underlying Fund):

Asset Class	**Min %**	**Max %**
Equity Securities	20%	80%
Fixed Income Securities	15%	75%
Cash & Short Term Investments (e.g. bills and deposits)	3%	20%

Geographical Distribution	**Min %**	**Max %**
United States	15%	100%
Hong Kong	0%	85%
Other Asia	0%	30%

The Guaranteed Fund will not enter into financial futures and options contracts for any purposes and will not engage in securities lending. The Underlying Fund may not enter into any financial futures or financial options contracts.

Risk and Return Profile: The Guaranteed Fund is a guaranteed balanced fund. The level of risk is higher than a money market fund but with a guarantee of capital and return for qualifying events (as described in the Appendix I to this Explanatory Memorandum). Subject as otherwise described in the Appendix I, the minimum career average guaranteed return for qualifying events is currently 4% p.a. compounded annually for amounts invested in the Underlying Fund on or before 30 September 2004 and 1% p.a. compounded annually for amounts invested in the Underlying Fund after 30 September 2004. Investment in the Guaranteed Fund is subject to a dilution of performance as a result of the guarantee structure for the Guaranteed Fund. In addition, the return from an investment in the Guaranteed Fund may in future be affected by the imposition of an Offer spread on the issue of Units and/or a Bid spread on the realisation of Units.

Details of the Guarantee: The operation of the Guaranteed Fund is subject to a number of conditions and is described in detail in the Appendix I to this Explanatory Memorandum. **Members are encouraged to read the Appendix I carefully before making a decision to invest in the Guaranteed Fund.**

Stable Growth Fund

Investment Objective: To achieve stable, long term capital appreciation through investment in a range of money market instruments, cash deposits, fixed income securities and global equities.

Investment Policy: The Stable Growth Fund will invest in two or more Approved Pooled Investment Funds, each of which may in turn make direct investments or invest in one or more Approved Pooled Investment Funds. In selecting these Approved Pooled Investment Funds, the Investment Manager will seek to match the risk profile of the Stable Growth Fund. Through the underlying investments, the Stable Growth Fund is expected to invest around 70% of its net asset value in money market instruments, fixed income securities and cash deposits and 30% of its net asset value in global equities.

The expected allocation of the Stable Growth Fund's underlying equity investments by region/country will be approximately:–

- 10% in Hong Kong;
- 4% in Asia;
- 4% in Japan;
- 6% in North America; and
- 6% in Europe.

Investment in fixed income securities will be made on a global basis; money market instruments and cash deposits will be denominated in Hong Kong dollars.

(Note: the above allocations are target ranges only. Actual allocations may vary with market conditions.)

Investments in fixed income securities will be subject to the credit rating requirements set out under the MPF Ordinance and as notified by the Authority. The Stable Growth Fund will enter into financial futures and option contracts for hedging purposes only. The Stable Growth Fund will not engage in securities lending.

Risk and Return Profile: Investors should regard the Stable Growth Fund as a low risk investment. The Investment Manager expects the return of the Stable Growth Fund over the long term to exceed the Hong Kong inflation rate.

Balanced Growth Fund

Investment Objective: To achieve capital appreciation consistent with moderate investment risk in excess of Hong Kong salary inflation over the long term.

Investment Policy: The Balanced Growth Fund will invest in two or more Approved Pooled Investment Funds, each of which may in turn make direct investments or invest in one or more Approved Pooled Investment Funds. In selecting these Approved Pooled Investment Funds, the Investment Manager will seek to match the risk profile of the Balanced Growth Fund. Through the underlying investments, the Balanced Growth Fund is expected to invest around 70% of its net asset value in global equities and 30% of its net asset value in money market instruments, fixed income securities and cash deposits.

The expected allocation of the Balanced Growth Fund's underlying equity investments by region/country will be approximately:–

- 24% in Hong Kong;
- 10% in Asia;
- 10% in Japan;
- 13% in North America; and
- 13% in Europe.

Investment in fixed income securities will be made on a global basis; money market instruments and cash deposits will be denominated in Hong Kong dollars.

(Note: the above allocations are target ranges only. Actual allocations may vary with market conditions.)

Investments will be in corporate and government securities issued by entities throughout the world.

Investments in fixed income securities will be subject to the credit rating requirements set out under the MPF Ordinance and as notified by the Authority.

The Balanced Growth Fund will enter into financial futures and option contracts for hedging purposes only. The Balanced Growth Fund will not engage in securities lending.

Risk and Return Profile: Investors should regard the Balanced Growth Fund as a medium to high risk investment. The Investment Manager expects the return of the Balanced Growth Fund over the long term to be in excess of Hong Kong salary inflation.

Aggressive Growth Fund

Investment Objectives: To achieve long term capital appreciation through investment in global equities.

Investment Policy: The Aggressive Growth Fund will invest in two or more Approved Pooled Investment Funds, each of which may in turn make direct investments or invest in one or more Approved Pooled Investment Funds. In selecting these Approved Pooled Investment Funds, the Investment Manager will seek to match the risk profile of the Aggressive Growth Fund. Through the underlying investments, the Aggressive Growth Fund is expected to invest around 90% of its net asset value in global equities, with the remainder invested in money market instruments, fixed income securities and cash deposits. Equity investments will be made with an emphasis on the Hong Kong market, but in general may cover a global range of equity markets.

The expected allocation of the Aggressive Growth Fund's underlying equity investments by region/country will be approximately:–

- 30% in Hong Kong;
- 13% in Asia;
- 13% in Japan;
- 17% in North America; and
- 17% in Europe.

(Note: the above allocations are target ranges only. Actual allocations may vary with market conditions.)

The Aggressive Growth Fund will enter into financial futures and option contracts for hedging purposes only. The Aggressive Growth Fund will not engage in securities lending.

Risk and Return Profile: Investors should regard the Aggressive Growth Fund as a high risk investment. The Investment Manager expects the return of the Aggressive Growth Fund over the long term to follow the trend of growth for the global equity markets with a bias towards the Hong Kong market.

General

Unless otherwise agreed with the Authority and the Commission, the Investment Manager will give not less than one month's prior notice (or such longer period as the Authority and the Commission may require) of any change in the investment objectives and policies of a Constituent Fund to Members.

Each of the Constituent Funds is denominated in HK dollars. The Capital Preservation Fund will maintain an effective currency exposure to HK dollars of 100 per cent. The other Constituent Funds will each maintain an effective currency exposure to HK dollars of not less than 30 per cent.

Risk Factors

Returns on the Guaranteed Fund are guaranteed in the manner and in the circumstances described in the Appendix I to this Explanatory Memorandum. Other Constituent Funds are not guaranteed and are therefore subject to market fluctuations and to the risks inherent in all investments. The price of Units of any Constituent Fund and the income from them may go down as well as up.

Investment in the Capital Preservation Fund is not equivalent to placing funds on deposit with a bank or deposit-taking company. A Member's rights on redemption of any Units held for the account of the Member in the Capital Preservation Fund are limited to the realisation price of such Units at the relevant time, which may be more or less than the price at which such Units were purchased. The Capital Preservation Fund is not subject to the supervision of the Hong Kong Monetary Authority.

The performance of the Constituent Funds is subject to a number of risk factors, including those set out below.

(i) Political, economic and social risks – All financial markets may at times be adversely affected by changes in political, economic and social conditions.

(ii) Emerging markets – Various countries in which the Constituent Funds may invest are considered as emerging markets. As emerging markets tend to be more volatile than developed markets, any holdings in emerging markets are exposed to higher levels of market risk. The securities markets of some of the emerging countries are not yet fully developed which may, in some circumstances, lead to a potential lack of liquidity. Accounting, auditing and financial reporting standards in some of the emerging markets may be less vigorous than international standards. As a result, certain material disclosures may not be made by some companies.

(iii) Currency risk – The Constituent Funds are denominated in Hong Kong dollars, although the underlying assets in which they ultimately invest may be quoted in other currencies. The performance of Constituent Funds may therefore be affected by movements in the exchange rate between the currencies in which the assets are held and the Hong Kong dollar.

Investment and Borrowing Restrictions

The Constituent Funds are subject to the investment and borrowing restrictions set out in Schedule 1 of the Mandatory Provident Fund Schemes (General) Regulation, as described under "Investment and Borrowing Restrictions" in the "General Information" section.

Establishment and Termination of Constituent Funds and Classes of Units

The Trustee may with the consent of the Sponsor establish new Constituent Funds in future. The Trustee will notify participating employers and Members when a new Constituent Fund is established. The Trustee may with the consent of the Sponsor establish further Classes of Units in respect of some or all of the Constituent Funds.

The Trustee may with the consent of the Sponsor terminate a Constituent Fund on giving not less than one month's notice (or such other period of notice as the Authority and Commission may agree or may require) to the Members and each participating employer. If a Constituent Fund is terminated, contributions will cease to be invested in such Constituent

Fund and amounts invested in such Constituent Fund must be switched (free of charge) into another Constituent Fund chosen by the relevant Member. If the relevant Member fails to make a choice when requested to do so, the Member's Units in the terminating Constituent Fund will be switched into the Stable Growth Fund and future contributions by or on behalf of the Member which would otherwise be invested in the terminating Constituent Fund will be invested in the Stable Growth Fund.

The Trustee may with the consent of the Sponsor terminate a class of Units relating to a Constituent Fund on giving not less than one month's notice (or such other period of notice as the Authority and the Commission may agree or may require) to affected Members and participating employers. If a class of Units relating to a Constituent Fund is terminated, future contributions will be invested in such other class of Units relating to the Constituent Fund as the Sponsor may determine and amounts invested in the terminating class of Units will be switched (free of charge) into such other class of Units.

MANAGEMENT AND ADMINISTRATION

Sponsor and Investment Manager

Principal Fund Management (Hong Kong) Limited (previously known as Dao Heng Fund Management Limited) is the Sponsor and Investment Manager of the Master Trust. It was incorporated in 1981 in Hong Kong with limited liability. At the end of January 2004, Dao Heng Fund Management Limited was acquired by and become a wholly-owned subsidiary of Principal Asset Management Company (Asia) Limited. In September 2004, the name of Dao Heng Fund Management Limited has been changed to "Principal Fund Management (Hong Kong) Limited".

Principal Asset Management Company (Asia) Limited is a company incorporated in Hong Kong in 1997 and is a subsidiary of Principal Financial Group, Inc. which is a Fortune 500 company listed on the New York Stock Exchange.

Principal Asset Management Company (Asia) Limited is specialized in portfolio management and asset management businesses and is devoted to providing reliable and quality services to its clients and is committed to be a professional fund management house. Principal Asset Management Company (Asia) Limited is also the investment manager for a number of occupational retirement schemes, mandatory provident fund schemes, approved pooled investment funds and retail investment funds in Hong Kong.

As of mid April 2004, the total assets under the management of Principal Asset Management Company (Asia) Limited amount to approximately HK$5.75 billion.

The Principal Financial Group offers a full range of insurance and financial products and services for businesses, groups and individuals. Its largest member company, Principal Life Insurance Company, was established in 1879 and ranks among one of the largest US life insurance companies based on assets.

Member companies of the Principal Financial Group currently serve around 15 million individuals and their dependants worldwide and handle more than 51,000 employer pension plans in the United States alone.

The Principal Financial Group is known for its outstanding customer service and financial stability in more than 250 locations worldwide including the United States, Europe, Latin America and Asia.

The Sponsor and Investment Manager is licensed with the Commission in Hong Kong to undertake types 4 and 9 regulated activities under the Securities and Futures Ordinance. With a strong corporate background, the Sponsor and Investment Manager has firmly established its regional network and local connections. It is currently managing assets for unit trusts; private and institutional discretionary portfolios; mandatory provident funds as well as pooled retirement plans.

Trustee

Principal Trust Company (Asia) Limited is trustee and custodian of the Master Trust. The Trustee is registered as a trust company in Hong Kong and has been approved by the Authority as an approved trustee for MPF purposes.

The Trustee is a member company of Principal Financial Group. The Trustee acts as trustee for a number of pension schemes in Hong Kong and has extensive experience in the retirement and pension schemes industry. The Principal Financial Group offers a full range of insurance and financial products and services for business, groups and individuals. Established in 1879, it is one of the top ten company in the Insurance (Life and Health) Industry in terms of revenues * (source: Fortune 500). Worldwide, the Principal Financial Group serves more than 15 million customers from more than 250 locations, including offices in Asia, Australia, Europe, Latin America and the United States.

Under the Trust Deed, the Trustee is responsible for the safekeeping of the assets of the Master Trust.

* as at April 2004

Administration

The Trustee has appointed its associated company, Principal Insurance Company (Hong Kong) Limited, to be responsible for the administration of the Master Trust and for, among other things, the following duties:–

– Maintenance of full accounting records relating to the allocation and current value of contributions paid.

– Calculation and payment of any benefits due to Members, in accordance with the Trust Deed. Interest will not be paid on the value of any benefits between the date a Member becomes entitled to benefits and the date such benefits are actually paid.

– Valuation of the Constituent Funds.

The Trustee may appoint others to assist it to provide administration services to the Master Trust and/or Members and participating employers, including the Sponsor and its associates. The Trustee will pay the fees of any such appointee.

CONTRIBUTIONS

Mandatory Contributions

A participating employer must make mandatory contributions to the Master Trust in respect of each Member employed by it who is not less than 18 but below 65 years of age and, except as provided below, must deduct mandatory contributions from the "relevant income" of each such Member employed by it and pay those mandatory contributions to the Master Trust.

Calculation of Mandatory Contributions

The following statements regarding the calculation of mandatory contributions are based on advice received by the Sponsor regarding the law in force in Hong Kong at the date of this document. Changes in the law in force in Hong Kong may affect the calculation of mandatory contributions.

The amount of the employer's mandatory contributions and the Member's mandatory contributions is as follows:–

Employer's mandatory contributions	– 5% of "relevant income" (subject to a maximum contribution of HK$1,000 per month);
Member's mandatory contributions	– if monthly "relevant income" is less than HK$5,000, nil; otherwise, 5% of "relevant income" (subject to a maximum contribution of HK$1,000 per month);

Note: Member's mandatory contributions are not required in respect of (1) where the Member is paid monthly or more frequently, any wage period that commences on or before the Member's 30th day of employment; and (2) where the Member is paid less frequently than monthly, the period from commencement of the Member's employment to the last day in the calendar month in which the Member's 30th day of employment falls. Employer's mandatory contributions are required in respect of these periods.

Members who are self-employed persons who are not less than 18 but below 65 years of age must also pay mandatory contributions to the Master Trust unless their "relevant income" is less than HK$5,000 per month or HK$60,000 per year. The amount of such mandatory contributions is 5 per cent of the Member's "relevant income" (subject to a maximum contribution of HK$1,000 per month or HK$12,000 per year).

"**relevant income**" is defined in the MPF Ordinance to mean:–

(a) for an employee, any wages, salary, leave pay, fee, commission, bonus, gratuity, perquisite or allowance (other than a housing allowance or other housing benefit), expressed in monetary terms, paid or payable by the employer (directly or indirectly) to that employee in consideration of his or her employment, but does not include severance payments or long service payments under the Employment Ordinance of Hong Kong;

(b) for a self-employed person, the income of that person ascertained in accordance with the Mandatory Provident Fund Schemes (General) Regulation.

Payment of Mandatory Contributions

Mandatory contributions must be paid to the Trustee within such times as are required by the MPF Ordinance.

Voluntary Contributions

Participating employers, Members who are employees of such participating employers and Members who are self-employed persons may elect to make voluntary contributions to the Master Trust, either on a regular basis or from time to time. A Participation Agreement may require the relevant employer and/or Members to make contributions to the Master Trust in addition to mandatory contributions. Such additional contributions are treated as voluntary contributions for the purposes of the Master Trust. Voluntary contributions should be paid at the same time and in the same manner as mandatory contributions. Unless otherwise specified by the employer in the relevant Participation Agreement, voluntary contributions made by an employer in respect of a Member vest in that Member immediately.

Payment of Contributions Generally

Contributions to the Master Trust should only be paid to the Trustee.

Investment of Contributions in Constituent Funds

The Trustee will apply contributions received to acquire Units on a Valuation Date within 5 Business Days of receipt of such contributions in cleared funds and in any event within 20 Business Days of such receipt. A Valuation Date is each Business Day. Pending the acquisition of Units in the Constituent Funds, the Trustee may hold contributions in an interest bearing account. Interest earned will, as the Trustee in its discretion determines, either be applied to meet general operating expenses of the Master Trust or shall form part of the income of the Master Trust.

Investment of contributions in different classes of Units: Class A Units, Class B Units, Class C Units, Class G Units and Class T Units may be issued, as follows:–

- Class T Units will be issued in respect of amounts transferred from other schemes in respect of Members. Class T Units will bear a lower trustee and administration fee and (with the exception of the Capital Preservation Fund) a lower or no investment management fee.
- Class G Units will be issued in respect of contributions to the Master Trust that are to be invested in the Guaranteed Fund.
- Class A Units will be issued in respect of contributions to the Master Trust that are to be invested in the Capital Preservation Fund, Stable Growth Fund, Balanced Growth Fund and Aggressive Growth Fund

- Class B Units will be issued in respect of contributions to the Master Trust that are to be invested in the Stable Growth Fund, Balanced Growth Fund and Aggressive Growth Fund
- Class C Units will be issued in respect of contributions to the Master Trust that are to be invested in the Stable Growth Fund, Balanced Growth Fund and Aggressive Growth Fund.
- Different levels of trustee and administration and investment management fees apply to Class A, B, C, G and T Units.

  At the time an employer or self-employed person or other eligible person applies to participate in the Master Trust, the Sponsor will agree with the employer or self-employed person or other eligible person the class of Units (A, B or C) in which contributions made by that employer and its employees or that self-employed person or other eligible person will be invested. In reaching such agreement, the Sponsor will have regard to a number of factors, including the number of employees employed by the employer and other relevant information. Such agreement will be reflected in the relevant Participation Agreement and may be changed by mutual agreement at either party's request whenever there is a material change in the circumstances relating to the employer or self-employed person or other eligible person.

Issue price of Units: The issue price of Units of a class relating to a Constituent Fund on a Valuation Date will be calculated by reference to the net asset value per Unit of that class as at the close of business in the last relevant market to close on that Valuation Date (for further details, see "Calculation of Issue and Realisation Prices" on page 19 below).

Offer spread: The Sponsor may levy an Offer spread of up to 2 per cent. of the issue price per Unit issued. Currently the Sponsor does not levy an Offer spread. No Offer spread will be levied on the issue of Units relating to the Capital Preservation Fund or the Guaranteed Fund.

General: Fractions of not less than one-thousandth of a Unit may be issued. Contributions representing smaller fractions of a Unit will be retained by the relevant Constituent Fund. No Units of a Constituent Fund will be issued where the determination of the net asset value of that Constituent Fund is suspended (for further details see "Suspension of Calculation of Net Asset Value" on page 19 below).

Mandates to Invest Contributions

On becoming a member of the Master Trust, a Member must give a written instruction to the Trustee (a "**Mandate**") setting out how contributions made by and on behalf of the Member are to be invested in the Constituent Funds. In the absence of a Mandate, the Trustee will invest the relevant contributions in the Stable Growth Fund.

A Member can change the Member's Mandate by giving a new Mandate to the Trustee. The new Mandate will apply with effect from the later of the Valuation Date falling on or immediately after the effective date specified in the Mandate (if any) and a Valuation Date within 5 Business Days after receipt of the new Mandate by the Trustee.

The forms for Mandates and changes of Mandates are available from the Trustee and the Sponsor and will be implemented free of charge. Mandates may be given to the Trustee by facsimile or in such other manner as the Trustee and the Sponsor may agree. However, the Trustee will not be responsible to any Member for any loss resulting from the non-receipt of a Mandate or any amendment to a Mandate prior to receipt by the Trustee.

Instructions to Change Investment

Members have the right (subject to any suspension in the determination of the net asset value of any relevant Constituent Fund) to switch all or part of their Units relating to a Constituent Fund into Units relating to another Constituent Fund or Constituent Funds by giving written notice to the Trustee (a "**Switching Instruction**"). Where a Member gives a Switching Instruction in respect of part of the Member's Units relating to the Guaranteed Fund, the remaining Units relating to the Guaranteed Fund will be treated as a new investment in the Guaranteed Fund. Any period of investment prior to the switch will not be included as part of the 36 month period required to qualify for the guarantee.

Members are limited to 12 Switching Instructions per year or such greater number as may be determined by the Trustee.

The forms for Switching Instructions are available from the Trustee and the Sponsor. Switching Instructions may be given to the Trustee by facsimile or in such other manner as the Trustee and the Sponsor may agree. However, the Trustee will not be responsible to any Member for any loss resulting from the non-receipt of a Switching Instruction or any amendment to a Switching Instruction prior to receipt.

A Switching Instruction will be dealt with on a Valuation Date within 5 Business Days after receipt of the Switching Instruction by the Trustee.

The rate at which the whole or any part of a holding of Units relating to a Constituent Fund (the "**Existing Units**") will be switched into Units relating to another Constituent Fund (the "**New Units**") will be determined by reference to their relative Unit prices on the relevant Valuation Date determined as described above.

Whilst no switching fee will currently be charged for implementing a Switching Instruction, under the Trust Deed the Sponsor has a discretion to levy a Bid spread (for the benefit of the Sponsor) of up to 1 per cent. of the realisation price of the Existing Units and an Offer spread (for the benefit of the Sponsor) of up to 2 per cent. of the issue price of New Units unless otherwise prohibited by the MPF Ordinance. However:–

(a) no Bid spread will be levied where the Existing Units relate to the Capital Preservation Fund or the Guaranteed Fund;

(b) no Offer spread will be levied where the New Units relate to the Capital Preservation Fund or the Guaranteed Fund; and

(c) it is the Sponsor's present intention to waive the Bid spread and Offer spread payable on a switch of Units.

Currently no switching fee will be charged for implementing a Switching Instruction. Under the Trust Deed, the Trustee may elect to charge a switching fee of up to HK$200 subject to prior approval of the Authority.

Any fraction smaller than one-thousandth of a New Unit arising as the result of a switch will be ignored and moneys representing any such fraction will be retained as part of the Constituent Fund to which the New Units relate.

BENEFITS

Entitlement to Benefits

A Member will become entitled to benefits in respect of mandatory contributions to the Master Trust in the circumstances set out in the MPF Ordinance. Currently, these circumstances include where the Member (i) reaches the age of 65, (ii) permanently ceases employment after reaching the age of 60 or as a result of permanent incapacity, (iii) permanently departs from Hong Kong, or (iv) dies, or (v) has the right to claim a small balance pursuant to the MPF Ordinance.

A Member will become entitled to benefits in respect of voluntary contributions to the Master Trust in the circumstances set out in the Trust Deed and the relevant Participation Agreement. Unless the Participation Agreement states otherwise, these circumstances include (i) the same circumstances as noted above in respect of mandatory contributions and (ii) in respect of a Member who is an employee of a participating employer, on leaving employment of the relevant employer. A Member who is a self-employed person is entitled to request the Trustee to pay the Member amounts attributable to the Member's voluntary contributions at any time.

Unclaimed benefits will continue to be held in the Master Trust, subject to the provisions of the MPF Ordinance.

Realisation of Units

Where a Member becomes entitled to benefits, the Trustee will realise all the Units held to the account of the Member. Subject as noted below, Units will be realised on a Valuation Date within 5 Business Days of the later of the date the entitlement arises and the date the Trustee receives satisfactory notice of such entitlement (together with appropriate supporting documentation) and in any event within 20 Business Days of such date.

Units realised on a Valuation Date will be realised at a price calculated by reference to the net asset value per Unit of the relevant class as at the close of business in the last relevant market to close on that Valuation Date (for further details, see "Calculation of Issue and Realisation Prices" on page 19 below). Although the Sponsor has the power to levy a Bid spread of up to 1 per cent. of the realisation price of each Unit realised, the Sponsor does not presently intend to levy such charge. No Bid spread will be levied on the realisation of Units relating to the Capital Preservation Fund or the Guaranteed Fund.

Realisation of Units will be suspended and payment of benefits will be delayed where the determination of the net asset value of the relevant Constituent Fund is suspended (for further details see "Suspension of Calculation of Net Asset Value" on page 19 below).

In addition, with a view to protecting the interests of Members, the Trustee is entitled to limit the number of Units relating to any Constituent Fund realised on any Valuation Date to 10 per cent. of the total value of Units relating to that Constituent Fund in issue. In this event, the limitation will apply pro rata so that all Members wishing to realise Units relating to that Constituent Fund on that Valuation Day will realise the same proportion by value of such Units and Units not realised (but which would otherwise have been realised) will be carried forward for realisation, subject to the same limitation, on the next Valuation Date. If requests for realisation are so carried forward, the Trustee will inform the Members concerned within 7 days.

Payment of Benefits

Subject as noted below, benefits (including amounts attributable to voluntary contributions) will be paid as soon as reasonably practicable and in any event within 30 days after the Trustee receives the claim for payment of such benefits. Payment may be delayed in certain circumstances pursuant to the MPF Ordinance, including where contributions in respect of the relevant Member remain outstanding or if the Master Trust is being audited or investigated at the instigation of the Mandatory Provident Fund Schemes Authority.

Benefits will be paid in HK dollars to the relevant recipient at the recipient's risk by cheque unless otherwise agreed between the Trustee and the relevant recipient. Bank charges (if any) incurred in making payment will be borne by the relevant recipient and accordingly will be deducted from the amount of the benefit.

TRANSFERS TO AND FROM OTHER SCHEMES

Transfers to Other Schemes

A participating employer may elect by notice in writing to the trustee of another scheme to transfer amounts held to the credit of Members employed by the relevant employer under the Master Trust and which relate to the Members' employment with the employer to that other scheme in which the employer will participate on the merger, division or winding up of the Master Trust in accordance with the MPF Ordinance or where the employer gives notice, personally or through the trustee of another scheme, of its intention to cease participation in the Master Trust in respect of such Members.

An employer (the new employer) who has acquired the business of a participating employer (the old employer) may, subject to the MPF Ordinance, elect to transfer to the trustee of another scheme amounts held under the Master Trust to the credit of Members employed by the old employer whose employment is transferred to the new employer.

Where a Member who is an employee of a participating employer ceases to be so employed, the Member may elect by notice in writing to the trustee of the new scheme to have amounts held to the credit of the Member under the Master Trust transferred to (a) another account in the Master Trust or (b) an account in another master trust scheme nominated by the Member or (c) an existing account of the Member in an industry scheme or (d) an account in a registered scheme in which the Member's new employer is participating in relation to that Member.

A Member who is a self-employed person may at any time elect by notice in writing to the trustee of the new scheme to have amounts held to the credit of the Member under the Master Trust transferred to (a) an account in another master trust scheme nominated by the Member or (b) an existing account of the Member in an industry scheme or (c) an account in an industry scheme to which the Member is eligible to belong or (d) where the Member subsequently becomes employed, an account in the scheme in which the Member's employer is participating in relation to the Member.

A Member who is not an employee of a participating employer or a self-employed person may at any time elect by notice in writing to the trustee of the new scheme to have amounts held to the credit of the Member under the Master Trust transferred to an account in another registered scheme to which the Member is eligible to belong.

No Bid spread or other charge may be made by the Trustee in respect of any such transfer, but the redemption price of the Approved Pooled Investment Funds in which the relevant Constituent Fund(s) invest may be adjusted to take account of realisation expenses including (but not limited to) brokerage, stamp duty, transaction fees, any bid/offer spread of underlying investments, registration and transfer fees, bank charges, conversion charges, and any other transaction costs. In the normal course, such adjustment is not expected to exceed 1% of the redemption price of the relevant Approval Pooled Investment Fund.

An election to transfer must be made in the form specified by the Authority and available from scheme trustees. On receipt of notification of an election to transfer from another trustee, the Trustee will arrange for transfer in accordance with the MPF Ordinance. In normal circumstances, the Trustee will effect a transfer within 30 days of receipt of a duly completed election form. Transfers may be delayed where valuation of the Constituent Funds are suspended (see "Suspension of Calculation of Net Asset Value" on page 19) and in certain circumstances specified pursuant to the MPF Ordinance, including where contributions are outstanding.

Transfers from Other Schemes

The Trustee has power to accept transfers from other schemes in respect of a Member. The Trustee will apply amounts received from other schemes to acquire Class T Units in the Constituent Funds (other than the Guaranteed Fund in relation to which only Class G Units are issued) in accordance with the instructions of the Member on the Valuation Date normally within 5 Business Days of receipt of such amounts in cleared funds and in any event within 20 Business Days of such receipt. No Offer spread is currently charged on the issue of Class T Units as a result of such transfers. Pending the acquisition of Units in the Constituent Funds, the Trustee may hold such amounts in an interest bearing account. Interest earned will, as the Trustee in its discretion determines, either be applied to meet general operating expenses of the Master Trust or shall form part of the income of the Master Trust.

CALCULATION OF NET ASSET VALUE AND ISSUE AND REALISATION PRICES

Calculation of Net Asset Value

The Trustee will value each Constituent Fund and calculate the issue and realisation prices of Units in accordance with the Trust Deed as at the close of business in the last relevant market to close on each Valuation Date. The Trust Deed provides (inter alia) that:–

(i) the value of any interest in a collective investment scheme shall be calculated by reference to the price of such interest quoted at the relevant time by the manager of the relevant collective investment scheme (or if more than one price is quoted, the bid price);

(ii) the value of any investment not included in paragraph (i) above which is listed, quoted or dealt in on a recognized stock exchange or recognised futures exchange shall be calculated by reference to the last traded price of such investment;

(iii) the value of any other investment (or in the case of any investment included in paragraphs (i) or (ii) above the prevailing price of which is not considered to be fair by the Trustee) shall be determined by any person (including the Sponsor) approved by the Trustee as qualified to value the relevant investment;

(iv) notwithstanding the foregoing, the Trustee may make such adjustments as it thinks appropriate to take account of any other assets or liabilities attributable to the relevant Constituent Fund not otherwise reflected in a valuation; and

(v) amounts expressed in currencies other than HK dollars shall be converted into HK dollars at such prevailing rates of exchange as the Trustee shall consider appropriate.

Calculation of Issue and Realisation Prices

The issue price of a Unit of a class relating to a Constituent Fund on a Valuation Date is the net asset value per Unit of such class rounded to the nearest cent (with fractions of HK$0.005 rounded up) provided that the Trustee may add an allowance (for the benefit of the relevant Constituent Fund) for fiscal and purchase charges which might be payable to buy investments for the account of the relevant Constituent Fund.

The realisation price of a Unit of a class relating to a Constituent Fund on a Valuation Date is the net asset value per Unit of such class rounded to the nearest cent (with fractions of HK$0.005 rounded up) provided that the Trustee may deduct an allowance (for the benefit of the relevant Constituent Fund) for fiscal and purchase charges which might be payable to sell investments for the account of the relevant Constituent Fund.

The net asset value per Unit of a class relating to a Constituent Fund is calculated by valuing the assets of that Constituent Fund, attributable to the relevant class of units deducting the liabilities attributable to the relevant class of Units and dividing the resultant sum by the number of Units of the relevant class in issue.

Publication of Prices

The issue and realisation prices per Unit of each class relating to a Constituent Fund will be published daily in the Sing Tao Daily and the Hong Kong Standard.

Suspension of Calculation of Net Asset Value

Unless otherwise prohibited by the MPF Ordinance, the Trustee may declare a suspension of the determination of the net asset value of any Constituent Fund:

(a) during any period when any stock exchange on which any of the investments for the time being held for the account of such Constituent Fund are quoted is closed otherwise than for ordinary holidays;

(b) during any period when any dealings on any such stock exchange are restricted or suspended;

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

(d) during any breakdown in the means of communication normally employed in determining the value of such Constituent Fund or part thereof or when for any other reason the value of any investment for the time being comprised in such Constituent Fund and representing a significant part of the value thereof cannot be promptly and accurately ascertained;

(e) during any period when the realisation of any investments for the time being comprised in such Constituent Fund or the transfer of funds involved in such realisation cannot in the opinion of the Trustee be effected at normal prices or normal rates of exchange respectively; or

(f) during any suspension of payment of benefits from the Master Trust pursuant to the MPF Ordinance.

Whenever the Trustee declares such a suspension it shall, as soon as may be practicable after any such declaration and at least once a month during the period of such suspension, publish a notice in the Sing Tao Daily and the Hong Kong Standard stating that such declaration has been made.

Summary of Fees and Charges

The following table describes the fees, charges and expenses that participating employers and members may pay upon and after joining our Principal MPF Scheme Series 500. Important explanatory notes and definitions are set out at the bottom of the table.

(A) JOINING FEE & ANNUAL FEE						
Types of fees	**Current amount (HK$)** [a]					**Payable by**
	Class A	**Class B**	**Class C**	**Class G**	**Class T**	
Joining fee[1, f]	Up to 8,000					Employer / Self Employed Person
Annual fee[2]	N/A					N/A

(B) FEES AND CHARGES PAYABLE ARISING FROM TRANSACTIONS IN INDIVIDUAL MEMBER'S ACCOUNT							
Types of fees & charges	**Name of constituent fund**	**Current level** [a]					**Payable by**
		Class A	**Class B**	**Class C**	**Class G**	**Class T**	
Contribution charge[3] **(% of contribution amount)**	All constituent funds	N/A					N/A
Offer spread[4] **(% of unit NAV)**	Capital Preservation Fund [j]	N/A					N/A
	Guaranteed Fund[k]						
	All other constituent funds	Nil					Member
Bid spread[5] **(% of unit NAV)**	Capital Preservation Fund	N/A					N/A
	Guaranteed Fund						
	All other constituent funds	Nil					Member
Withdrawal charge[6]	All constituent funds	N/A					N/A

(C) ANNUAL FUND OPERATING CHARGES & EXPENSES OF CONSTITUENT FUND							
Types of charges & expenses	**Name of constituent fund**	**Current level (% p.a. of NAV) [a]**					**Deducted from**
		Class A	**Class B**	**Class C**	**Class G**	**Class T**	
Management fees[7, c, d]	Capital Preservation Fund [j]	1.50%	N/A	N/A	N/A	1.35%	Fund assets
	Guaranteed Fund [k]	N/A	N/A	N/A	1.27%	N/A	
	Stable Growth Fund	1.10%	0.90%	Up to 0.80%	N/A	0.65%	
	Balanced Growth Fund	1.10%	0.90%	Up to 0.80%	N/A	0.65%	
	Aggressive Growth Fund	1.10%	0.90%	Up to 0.80%	N/A	0.65%	
Guarantee charge[8]	Guaranteed Fund	N/A					N/A
Others expenses [h, i] (Expenses are deducted from Funds' Assets)	Compensation fund levy	0.03% of the net asset value per annum					
	Operating expenses	Fees and expenses of custodians, audit and legal fees, valuation cost, annual regulatory fees, the cost incurred in the preparation and printing of any explanatory memorandum and the Trustee's Indemnity Insurance.					
	Establishment fee	The establishment cost borne by the Constituent Funds has been fully amortized.					

(D) FEES AND CHARGES PAYABLE OUT OF THE UNDERLYING FUNDS [l]							
Types of charges & expenses	**Name of constituent fund**	**Current level (% p.a. of NAV) [a]**					**Deducted from**
		Class A	**Class B**	**Class C**	**Class G**	**Class T**	
Management Fees[7]	Capital Preservation Fund	Nil	N/A	N/A	N/A	Nil	Relevant underlying fund assets
	Guaranteed Fund	N/A	N/A	N/A	Up to 1.50%	N/A	
	Stable Growth Fund	0.70% to 0.925%	0.70% to 0.925%	0.70% to 0.925%	N/A	0.70% to 0.925%	
	Balanced Growth Fund	0.70% to 0.925%	0.70% to 0.925%	0.70% to 0.925%	N/A	0.70% to 0.925%	
	Aggressive Growth Fund	0.70% to 0.925%	0.70% to 0.925%	0.70% to 0.925%	N/A	0.70% to 0.925%	
Guarantee charge[8]	Guaranteed Fund	N/A	N/A	N/A	1.0%	N/A	Relevant underlying fund assets
Others expenses [i, l, m] (Expenses are deducted from Funds' Assets)	Including but not limited to stamp and other duties, taxes, governmental charges, brokerages, commissions, exchange costs, bank charges, transfer fees and expenses, registration fees and expenses, transaction fees of the Trustee and its Connected Persons, custodian or sub-custodian and proxy fees and expenses, collecting fees and expenses, any other costs, charges or expenses payable in respect of the acquisition, holding and realization of any investment or other property or any cash, deposit or loan, Auditors fees and expenses, valuation fees, costs and expenses incurred in effecting and maintaining any insurance required under the MPF Ordnance, legal costs, out-of-pocket expenses incurred by the Trustee, expenses of preparation of deeds supplemental, expenses of holding meetings of unitholders and of giving notices to unitholders, costs incurred in connection with any listing or regulatory approval and costs incurred in publishing the issue and realization prices of units and the preparation and printing of any explanatory memorandum, any audited accounts or interim reports which are sent to the unitholders						

(E) OTHER FEES AND CHARGES FOR PROVIDING ADDITIONAL SERVICES							
Types of fees	**Current amount (HK$)** [a]					**Payable by**	**Received by**
	Class A	**Class B**	**Class C**	**Class G**	**Class T**		
Statement fee	Up to HK$100 per an interim statement. The annual benefit statement and the first 4 requests for a statement in any calendar year are free of charge.					Member	Trustee
Participation agreement amendment fee	Legal fees and disbursements (if any) incurred by the Trustee in connection with amending the Participation Agreement at the request of an Employer/Member. The level of such fees will depend on the nature of the amendments.					Member / Employer	Trustee

DEFINITIONS

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

1. "Joining fee" means the one-off fee charged by the trustee/sponsor of a scheme and payable by the employers and/or members upon joining the scheme. The term "Joining fee" is given the name of "Inception Fee" in the Principal MPF Scheme Series 500 Trust Deed.
2. "Annual fee" means the fee charged by the trustee/sponsor of a scheme on an annual basis and payable by the employers and/or members of the scheme.
3. "Contribution charge" means the fee charged by the trustee/sponsor of a scheme against any contributions paid to the scheme. This fee is usually charged as a percentage of contributions and will be deducted from the contributions. This charge does not apply to capital preservation fund.
4. "Offer spread" is charged by the trustee/sponsor upon subscription of units of a constituent fund by a scheme member. Offer spread does not apply to a capital preservation fund. The term "Offer spread" is given the name of "Preliminary Charge" in the Principal MPF Scheme Series 500 Trust Deed.
5. "Bid spread" is charged by the trustee/sponsor upon redemption of units of a constituent fund by a scheme member. Bid spread does not apply to a capital preservation fund. The term "Bid spread" is given the name of "Realization Charge" in the Principal MPF Scheme Series 500 Trust Deed.
6. "Withdrawal charge" means the fee charged by the trustee/sponsor of a scheme upon withdrawal of accrued benefits from the scheme. This fee is usually charged as a percentage of the withdrawal amount and will be deducted from the withdrawal amount. This charge does not apply to capital preservation fund.
7. "Management fees" include fees paid to the trustee[d], custodian, administrator, investment manager[c] (including fees based on fund performance, if any) and sponsor of a scheme for providing their services to the relevant fund. They are usually charged as a percentage of the net asset value of a fund.
8. "Guarantee charge" refers to an amount that is deducted out of the assets of a guaranteed fund for the purpose of providing the guarantee. This fee is usually charged as a percentage of the net asset value of a guaranteed fund. The term "Guarantee charge" is given the name of "Reserve charge" in the Principal MPF Scheme Series 500 Trust Deed.

EXPLANATORY NOTES

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

b. Sponsor's Fees

Subject as provided below in relation to the Capital Preservation Fund, the Sponsor is entitled to receive a sponsor's fee in respect of each Constituent Fund at the rate of up to 0.25% per annum of the net asset value of the relevant Constituent Fund. This fee is calculated and accrued on each Valuation Date and is paid monthly in arrears. The Sponsor has agreed to waive its fee in relation to each of the Constituent Funds.

The Sponsor is also entitled to receive an Offer spread on the issue of Units in each Constituent Fund (other than the Capital Preservation Fund and the Guaranteed Fund) of up to 2 per cent. of the issue price of such Units and a Bid spread on the realisation of Units in each Constituent Fund (other than the Capital Preservation Fund and the Guaranteed Fund) of up to 1 per cent. of the realisation price of such Units. However, it is Sponsor's current intention to waive the Offer spread and the Bid spread.

c. Investment Management Fees

Subject as provided below in relation to the Capital Preservation Fund, the Investment Manager is entitled to receive an investment management fee for each Constituent Fund of up to 2 per cent. per annum calculated as a percentage of that part of the net asset value of the relevant Constituent Fund attributable to the relevant class of Units. The current rate of investment management fee in relation to each class of Units is set out below and may only be increased up to or towards the maximum rate of 2 per cent. per annum. This fee is calculated and accrued on each Valuation Date and is paid monthly in arrears.

	Rate of Investment management fee				
	Class A Units	**Class B Units**	**Class C Units**	**Class G Units**	**Class T Units**
Capital Preservation Fund	0.60% p.a.	N/A	N/A	N/A	0.70% p.a.
Guaranteed Fund	N/A	N/A	N/A	0.37% p.a.	N/A
Stable Growth Fund	0.20% p.a.	0.05% p.a.	0% p.a.	N/A	0% p.a.
Balanced Growth Fund	0.20% p.a.	0.05% p.a.	0% p.a.	N/A	0% p.a.
Aggressive Growth Fund	0.20% p.a.	0.05% p.a.	0% p.a.	N/A	0% p.a.

d. Trustee Fees

Subject as provided below in relation to the Capital Preservation Fund, the Trustee is entitled to receive a trustee and administration fee for each Constituent Fund calculated as a percentage of that part of the net asset value of the relevant Constituent Fund attributable to the relevant class of Units. The current rate of the trustee and administration fee in relation to each class of Units is set out below and (after consulting the Sponsor) may only be increased up to or towards the maximum rate of 1.5 per cent. per annum.

	Rate of Trustee and Administration Fee				
	Class A Units	**Class B Units**	**Class C Units (see note)**	**Class G Units**	**Class T Units**
Capital Preservation Fund	0.90% p.a.	N/A	N/A	N/A	0.65% p.a.
Guaranteed Fund	N/A	N/A	N/A	0.90% p.a.	N/A
Stable Growth Fund	0.90% p.a.	0.85% p.a.	up to 0.80% p.a.	N/A	0.65% p.a.
Balanced Growth Fund	0.90% p.a.	0.85% p.a.	up to 0.80% p.a.	N/A	0.65% p.a.
Aggressive Growth Fund	0.90% p.a.	0.85% p.a.	up to 0.80% p.a.	N/A	0.65% p.a.

Note
The Trustee fee in relation to Class C Units of the Stable Growth Fund, Balanced Growth Fund and Aggressive Growth Fund will be calculated as a percentage of that part of the net asset value of the relevant Constituent Fund attributable to Class C Units as follows:–

0.8% p.a. on the first HK$1 billion;
0.7% p.a. on the remaining balance in excess of HK$1 billion.

The Trustee's fee is calculated and accrues on each Valuation Date and is paid monthly in arrears and is subject to a minimum annual fee for the Master Trust of HK$1,950,000. This minimum annual fee will be borne by each of the Constituent Funds other than the Capital Preservation Fund and Guaranteed Fund in proportion to their respective net asset values.

The Trustee is also entitled to receive various transaction and processing fees in accordance with its normal scale of charges which range from US$30 to US$50 per transaction depending on the nature of the transaction. These charges relate to the acquisition or disposal of investments within a Constituent Fund, not to Member transactions, and are charged directly to the Constituent Fund.

The Trustee may appoint others to assist it to provide administrative services to the Master Trust and/or Members and participating employers, including the Sponsor and its associates. The Trustee will pay the fees of any such appointee.

e. Switching Fee

Currently, Switching Instructions are free of charge. Under the Trust Deed, the Trustee may elect to charge a switching fee of up to HK$200 subject to prior approval of the Authority.

f. Joining Fee

No Joining Fee will be charged on a transfer from another scheme.

g. The Sponsor and the Investment Manager may share any fees it receives with distributors or agents procuring subscriptions to the Master Trust. The Investment Manager and its associates may with the consent of the Trustee deal with any Constituent Fund, both as principal and agent, and, subject as provided below, may retain any benefit which they receive as a result.

h. Other Charges and Expenses

Subject as provided below in relation to the Capital Preservation Fund, each Constituent Fund will bear the costs and administrative expenses set out in the Trust Deed which are directly attributable to it. Where such costs are not directly attributable to a Constituent Fund, each Constituent Fund will bear such costs in proportion to its respective net asset value or in such other manner as the Investment Manager with the approval of the Trustee shall consider fair.

i. No advertising costs, promotional or other selling expenses will be charged to the Constituent Funds or to the Approved Pooled Investment Funds in which they invest.

j. Capital Preservation Fund

Fees, charges and expenses will only be payable out of the Capital Preservation Fund to the extent permitted by the MPF Ordinance. The Sponsor will bear any charges or expenses other than the aggregated trustee, custodian and administration fee, sponsor fee and the investment management fee attributable to the Capital Preservation Fund which are not permitted to be payable out of the Capital Preservation Fund.

k. Guaranteed Fund

For Guaranteed Fund, The Investment Manager and the Trustee have agreed that the aggregate fees payable to the Sponsor, the Investment Manager, the Trustee, the investment management fee payable to the manager of the underlying Approved Pooled Investment Fund in which the Guaranteed Fund will invest (excluding the Guarantee charge) and the other charges and expenses payable out of the Guaranteed Fund (as described under "Other Charges and Expenses" above) will not exceed 2.5 per cent of the net asset value of the Guaranteed Fund. If the aggregate of the fees payable to the Sponsor, Investment Manager, the Trustee, the manager of the Underlying Approved Pooled Investment Fund would exceed this amount, the Investment Manager will reduce its fees accordingly.

l. Fees and Charges Payable out of Underlying Approved Pooled Investment Funds

Fees and Charges Payable out of the First Level Underlying Approved Pooled Investment Funds ***(Note 5)***		
Underlying Approved Pooled Investment Fund *(Note 1)*	Investment Management Fee (based on net asset value of the relevant fund) *(Note 2)*	Trustee and/or Administration Fee (based on net asset value of the relevant fund) *(Note 2)*
Approved Pooled Investment Funds managed by Principal Asset Management Company (Asia) Limited *(Note 3)*	0.55% to 0.75% p.a.	0.15% p.a.
Approved Pooled Investment Funds managed by other investment managers	up to 0.75 % p.a.	0.15% to 0.175% p.a.
Approved Pooled Investment Fund that is underlying the Guarantee Fund and guaranteed by Principal Insurance Company (Hong Kong) Limited *(Note 4)*	up to 1.5% p.a.	N/A

Notes:

1. *All underlying Approved Pooled Investment Funds are currently managed by investment managers other than Principal Fund Management (Hong Kong) Limited.*

2. *For the Approved Pooled Investment Funds managed by Principal Asset Management Company (Asia) Limited, the current rates of the Investment Management Fee and Trustee and / or Administration Fee stated above may be increased to 2.0% p.a. and 1.0% p.a. respectively. The current rates of the Investment Management Fee and Trustee and / or Administration Fee stated above for the Approved Pooled Investment Funds managed by other investment managers may be increased to 2.0% p.a. and 1.0% p.a. respectively.*

3. *In respect of those Approved Pooled Investment Funds which are insurance policies issued by Principal Insurance Company (Hong Kong) Limited, the Investment Management Fees and Administration Fees will be deducted at the constituent fund level.*

4. *The Investment Management Fees will be deducted from the Guaranteed Fund at the constituent fund level. 1.0% p.a. of Guaranteed Charge will be deducted from the Approved Pooled Investment Fund that is underlying the Guaranteed Fund.*

5. *Where a Constituent Fund invests in a fund managed by the Investment Manager or any of its associates no Offer spread will be payable by the Constituent Fund in respect of such investment. However, a Constituent Fund will indirectly bear the fees and expenses payable out of the Approved Pooled Investment Fund in which it invests (for further details see "Summary of Fees and Charges" on page 20).*

m. Fees and Charges Payable out of the Second Level Underlying Approved Pooled Investment Funds

No Investment management fee or trustee fee will be charged by the investment manager or trustee at the second level underlying approved pooled investment funds. However, such approved pooled investment funds will bear the costs and expenses incurred in their establishment, management and administration, such as brokerage fees, legal fees, auditors' fees and custodian and sub-custodian fees.

On-going Cost Illustrations

A document that illustrates the on-going costs on contributions to the constituent funds in this scheme (except for the Capital Preservation Fund) will be distributed with the Explanatory Memorandum with effect from 30 September 2006 onwards. An illustrative example for the Capital Preservation Fund is currently available for distribution with this Explanatory Memorandum. Before making any investment decisions concerning MPF investments, you should ensure that you have the latest version of these documents which can be obtained from www.principal.com.hk.

Cash Rebates and Soft Commissions

Neither the Investment Manager nor any of its connected persons may retain cash or other rebates from a broker or dealer in consideration of directing transactions to them.

The Investment Manager and any of its connected or associated persons may effect transactions by or through the agency of another person with whom the Investment Manager or any of its connected persons have an arrangement under which that party will from time to time provide to or procure for the Investment Manager or any of its connected persons, goods, services or other benefits, such as research and advisory services, computer hardware associated with specialised software or research services and performance measures etc., the nature of which is such that their provision can reasonably be expected to benefit the Master Trust as a whole and may contribute to an improvement in the Master Trust's performance and that of the Investment Manager or any of its connected persons in providing services to the Master Trust and for which no direct payment is made but instead the Investment Manager or any of its connected persons undertake to place business with that party. For the avoidance of doubt such goods and services do not include travel, accommodation, entertainment, general administrative goods and services, general office equipment or premises, membership fees, employee salaries or direct money payments. Details of soft commission arrangements will be disclosed in the Master Trust's accounts.

TAXATION

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

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

For Employers

Initial and special lump sum contributions are allowable for profits tax purposes in five equal instalments over five years.

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

Refunds of voluntary contributions to the employer will be treated as taxable receipts in the hands of the employer for profits tax purposes. Forfeited voluntary contributions are permitted to revert to the Master Trust to be used to reduce contributions by the employer or, to increase the benefits available to employees or otherwise as the employer may direct.

For Employees

Lump sum benefits on retirement or earlier incapacity or death are not subject to salaries tax in the hands of the employee. "Retirement" is defined as meaning:-

- retirement from the service of the employer at a specified age of not less than 45 years;
- retirement after a period of service with the employer of not less than 10 years; or
- attainment of a specified age of retirement or 60 years, whichever is later (whether or not the employee has in fact retired from his employment at such age).

If an employee leaves service otherwise than on retirement, death or incapacity, a proportion of the employee's accrued benefit paid may be subject to salaries tax.

Payments received by the employee from the Master Trust by way of a recurrent pension derived from Hong Kong are subject to salaries tax. Salaries tax is not payable on the portion of any payment that represents either the employee's contributions and its investment earnings of the Master Trust.

The employer's contributions are not taxable on the employee. For salaries tax purposes, a deduction from salary is allowed for the amount of the employee's mandatory contributions to the Master Trust (up to a maximum of HK$12,000 per annum). However, employees remain liable to salaries tax on any voluntary contributions they make to the Master Trust.

For Self-Employed Persons

Self-employed persons will be eligible for a deduction of up to HK$12,000 per annum in respect of assessable profits for their mandatory contributions to the Master Trust.

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

For the Master Trust

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

Accounts, Reports and Statements

The Master Trust's year end is 31 March in each year.

As soon as practicable after each financial year, the Trustee will prepare a consolidated report consisting of (i) the audited accounts of the Master Trust prepared in accordance with International Accounting Standards (except that the establishment costs of the Master Trust will be amortised over five years, as set out in "Other Charges and Expenses" above), (ii) the Trustee's report on the Master Trust for the relevant financial year and (iii) the Investment Manager's investment report for the relevant financial year. This consolidated report will be open for inspection by Members free of charge at any time during normal business hours on any day (excluding Saturdays, Sundays and public holidays) at the offices of the Trustee (Units 1001-1003, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong) and the Sponsor (Units 1001-1003, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong). Members may request the Trustee to provide them with copies of the consolidated reports for the Master Trust for any of the preceding 7 financial years.

The Trustee will send each Member an annual benefit statement within 3 months of the end of each financial year. The annual benefit statement will include details of the contributions to the Master Trust in respect of the Member during the year, the Units held for the account of the Member in each Constituent Fund and the value of the accrued benefits of the Member under the Master Trust as at the start and end of the relevant financial year.

Members can at any time during the year request an interim benefit statement. The first 4 requests are free of charge. For any subsequent requests, the Trustee is entitled to charge the Member a fee of up to HK$100.

Investment and Borrowing Restrictions

For the Capital Preservation Fund

The Capital Preservation Fund is subject to the investment restrictions applicable to capital preservation funds pursuant to the MPF Ordinance (as set out in section 37 and Schedule 1 of the Mandatory Provident Fund Schemes (General) Regulation).

For the Guaranteed Fund

The Guaranteed Fund is a feeder fund and invests in a single Approved Pooled Investment Fund guaranteed by Principal Insurance Company (Hong Kong) Limited. The underlying Approved Pooled Investment Fund is subject to the investment restrictions applicable to Approved Pooled Investment Funds pursuant to the MPF Ordinance (as set out in Schedule 1 of the Mandatory Provident Fund Schemes (General) Regulation).

For the Stable Growth Fund, the Balanced Growth Fund and the Aggressive Growth Fund

Each of these Constituent Funds are "funds of funds" and are subject to the following investment restrictions:–

(1) the relevant Constituent Fund may only invest in Approved Pooled Investment Funds and Approved Index-Tracking Funds;

(2) the relevant Constituent Fund must invest in not less than two Approved Pooled Investment Funds and Approved Index-Tracking Funds;

(3) no investment may be made for the account of the relevant Constituent Fund if as a result the value of that Constituent Fund's holding of interests in any one Approved Pooled Investment Fund or Approved Index-Tracking Fund would exceed 90 per cent. of the net asset value of that Constituent Fund; and

(4) the Investment Manager may enter into currency forward contracts, futures contracts and options contracts for the account of the relevant Constituent Fund for hedging purposes only.

Borrowing Restrictions

The Investment Manager may borrow for the account of each Constituent Fund for liquidity purposes to meet benefit payments and for other limited purposes as permitted pursuant to the MPF Ordinance. The assets of the relevant Constituent Fund may be charged or pledged as security for any such borrowings.

General

The Investment Manager is not immediately required to sell applicable investments if any of the investment restrictions are exceeded as a result of changes in the value of a Constituent Fund's investments, reconstructions or amalgamations, payments out of the assets of the Constituent Fund or realisations of Units but for so long as such limits are exceeded will not acquire any further investments subject to the relevant restriction and will take all reasonable steps to restore the position so that the limits are no longer exceeded.

Trust Deed

The Master Trust was established under Hong Kong law by a trust deed dated as of 31 January 2000. All Members and participating employers are entitled to the benefit of, are bound by and are deemed to have notice of the provisions of the Trust Deed.

The Trust Deed contains provisions for the indemnification of the Trustee and the Sponsor and their relief from liability in certain circumstances. Members, participating employers and intending applicants are advised to consult the terms of the Trust Deed. Although every effort has been made to ensure the accuracy of the facts and matters stated in this Explanatory Memorandum, in the event of any conflict between any of the provisions of this Explanatory Memorandum and the Trust Deed, the provisions of the Trust Deed prevail.

Modification of Trust Deed and Participation Agreements

The Trustee and the Sponsor may agree to modify the Trust Deed by supplemental deed, either generally so as to apply to all Members and participating employers or so as to apply specifically to a particular Member or Members or a particular employer or employers and Members employed by such employer or employers.

Any modifications to the Trust Deed will be submitted to the Authority and the Commission for prior approval and will be notified to Members.

The Trustee, the Sponsor and the relevant employer (or Member in the case of a self-employed person or other eligible person) may agree to modify the Participation Agreement applicable to that employer (or self-employed person or other eligible person).

Merger or Division of Master Trust

The Master Trust may be merged with one or more other schemes or sub-divided into 2 or more other schemes in accordance with the MPF Ordinance. The Trustee will give Members and participating employers not less than 1 month's notice of any merger or sub-division of the Master Trust (or such other period as the Authority and the Commission may agree or may require).

Material Contracts

The Trustee has entered into the following contracts which are or may be material to the Master Trust:–

(a) an agreement dated as of 31 January 2000 as amended by a supplemental agreement dated 28 November 2000 and a deed of novation dated 29 April 2003 appointing the Investment Manager to manage the assets of the Master Trust.

(b) an insurance policy with Principal Insurance Company (Hong Kong) Limited dated 1 July 2004 in relation to the Guaranteed Fund.

Documents Available For Inspection

Copies of the Trust Deed, the contracts referred to above and the latest consolidated report for the Master Trust (if any) are available for inspection free of charge at any time during normal business hours on any day (excluding Saturdays, Sundays and public holidays) at the offices of the Sponsor, (Units 1001-1003, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong). Copies of the Trust Deed and the contracts referred to above can be purchased from the Sponsor on payment of a reasonable fee.

APPENDIX I

GUARANTEED FUND

Provision of guarantee

Contributions made by or on behalf of Members for the subscription of Units of the Guaranteed Fund (net of any Offer spread) will be invested in the Underlying Fund and 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 Underlying Fund in the manner described below. The guarantee is offered by the Guarantor of the Underlying Fund, which is an insurance policy. For details, please refer to the section headed "Guarantee Mechanism" below.

Guarantee on occurrence of a "qualifying event"

The guarantee of capital and return will only be offered if the contributions invested in the Underlying Fund (through the Guaranteed Fund) are withdrawn upon the occurrence of a "**qualifying event**", which is the receipt by the Guarantor of a valid claim (as defined below) 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) Permanent departure from Hong Kong

(e) Claim of "small balance"

The above conditions (a) to (e) apply to employee members, self-employed persons and "preserved" account holders.

(f) Termination of the Member's employment (regardless of the reason for termination) and the continuous period for which the Member has been investing in the Underlying Fund (through the Guaranteed Fund) up to and including the last date of his employment ("**qualifying period**") is at least 36 complete months. *(This only applies if the Member is employed in a company participating in the Master Trust).* The qualifying period may also be re-set to zero if the Member (or his representative) effects a redemption, switching out or withdrawal of investments from the Guaranteed Fund other than upon the occurrence of a qualifying event. For the avoidance of doubt, condition (f) does not apply to self-employed Members or preserved account holders.

Meaning of "valid claim"

For this purpose, a "**valid claim**" means a claim of all the accrued benefits submitted by the Member (or his representative) pursuant to, and with all the necessary supporting documentation as prescribed by the applicable regulations and the Trust Deed. Such claim must cover all accrued benefits of the Member and must be received by the Guarantor through 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 Guarantor. For the avoidance of doubt, where a Member participates in the Underlying Fund (through investment in the Guaranteed Fund) in his capacity of an employee of more than one employment, a "valid claim" made by the Member in respect of one employment shall mean a claim submitted by him of all (but not part of) his accrued benefits under that (but not any other) employment.

Additional situations where guarantee will apply

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

1. Transfer to preserved account on retirement or death

   If the Member retires upon or after the attainment of the normal retirement age (condition (a) other than early retirement) or dies (condition (c)), but he (or his personal representative) has failed to file a valid claim of his accrued benefits under the Master Trust and to make an election pursuant to section 146 of the Mandatory Provident Fund Schemes (General) Regulation, then, his actual amount of accrued benefits (with the application of the guarantee) will be transferred to a preserved account under the Master Trust pursuant to the applicable regulations and the Trust Deed. After the transfer, the guarantee at the "new applicable rate" (as described in the "New Applicable Rate" section below) will be applicable to his preserved account in respect of the balances so credited. When the Member subsequently claims all of his accrued benefits from the preserved account, the Member will be entitled to the guarantee under the new applicable rate in respect of his preserved account balances.

2. Transfer to preserved account on termination of employment

   In case of condition (f), if the employment of the Member is terminated with a qualifying period of 36 complete months or more but he has failed to file a valid claim of his accrued benefits under the Master Trust and to make an election pursuant to section 146 of the Mandatory Provident Fund Schemes (General) Regulation, then, his accrued benefits (with the application of the guarantee) will be transferred to a preserved account under the Master Trust pursuant to the applicable regulations and Trust Deed. Subsequent to the transfer, the guarantee at the "new applicable rate" (as described in the "New Applicable Rate" section below) will be applicable to his preserved account in respect of the balances so credited. When the Member finally claims all of the benefits upon the occurrence of a qualifying event under condition (a), (b), (c), (d) or (e), the Member will be entitled to the guarantee under the new applicable rate in respect of his preserved account balances.

   Caution: Members should also note that if accrued benefits of a Member are transferred to a preserved account and he has failed to file a valid claim of his accrued benefits prior to the transfer, then, unless otherwise provided in 1 or 2 above, (a) no guarantee will apply at the time when the accrued benefits are transferred to the preserved account; (b) any guarantee entitlements in respect of the Member prior to the transfer will be forfeited; and (c) the "new applicable rate" (as described in the "New Applicable Rate" section below) will be applicable to the preserved account after the transfer of the accrued benefits thereto. Further, if the member elects to transfer his accrued benefits to the preserved accounts upon termination of employment but none of the conditions in (a) to (f) occurs, no guarantee will be applicable at the time when the accrued benefits are so transferred.

3. Intra-group transfer of employment

   If there is any intra-group transfer of an employee Member (and his new employer is also participating in the Master Trust 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 are 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 Master Trust 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 Underlying Fund (through the Guaranteed 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 Guaranteed Fund other than upon the occurrence of a qualifying event (for details of the guarantee, please refer to the "Guarantee Mechanism" section below). If the Member 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.

Guarantee Mechanism

Under the guarantee mechanism, a "*qualifying balance*"* will be maintained in respect of all the scheme accounts of each Member. When a contribution is made to the Underlying Fund (through the Guaranteed 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 in the manner as set out below.

Rate of guarantee

For contributions made to the Underlying Fund (through the Guaranteed Fund) on or before 30 September 2004, interest will be credited to the qualifying balance of that Member at a rate of not less than 4% per annum; and in respect of contributions made to the Underlying Fund (through the Guaranteed Fund) after 30 September 2004, interest will be credited to the qualifying balance of that Member at the "**new applicable rate**" (see below). **However, if the Member (or his personal representative) effects a redemption, switching out or withdrawal of investments from the Guaranteed Fund after 30 September 2004 other than on the occurrence of a qualifying event (as described above under "Provision of Guarantee"), 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.

Calculation of amount payable under guarantee

The guarantee will be offered to a 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 Guaranteed 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 will be paid and the "*shortfall*" will be made up by the Guarantor. (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**" or "**NB**" in the examples set out at the end of this Appendix I.) On the other hand, if the net asset value of the Units of the Guaranteed 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 any 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 at the end of this Appendix I.

For the purpose of condition (f) of the qualifying events, the qualifying period will be determined in respect of the Member upon termination of his employment (i.e. the continuous period for which that Member has been investing in the Underlying Fund (through the Guaranteed Fund) up to and including that Member's last date of employment). **However, the qualifying period in respect of a Member may also be re-set to zero if the Member effects a redemption, switching out or withdrawal of the Units of the Guaranteed Fund other than upon the occurrence of a qualifying event.** For illustration, please refer to Scenario 3 – Example 6 set out at the end of this Appendix I. For the avoidance of doubt, where a Member

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

participates in the Underlying Fund (through investment in the Guaranteed Fund) in his capacity of an employee of more than one employment, the guarantee offered by the Guarantor under the Underlying 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.

Effect of early redemption, switching or withdrawal

Similarly, Members should also note that the guarantee of capital and return (as reflected in the value of the qualifying balance) is offered on the condition that all contributions made by or on behalf of a Member to the Underlying Fund (through the Guaranteed Fund) will NOT be redeemed, switched out or otherwise withdrawn (in whole or in part) other than on the occurrence of a qualifying event. If a redemption, switching out or withdrawal of a Member's Units of the Guaranteed Fund is effected other than on the occurrence of a qualifying event, the guarantee will be affected and the qualifying balance of that Member will be adjusted downward to reflect the effect of the redemption, switching 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 at the end of this Appendix I. Furthermore, the "qualifying period" (as stated in condition (f) of the qualifying events) of the Member will be re-set to zero and re-commence from the date of such adjustment. However, if following such redemption, switching or withdrawal of Units, there are no longer any contributions remaining in the Underlying Fund, the qualifying period will only re-commence from the date on which any new contributions are made to the Underlying Fund.

For illustrations, please refer to Scenarios 6 and 7 – Examples 10 to 12 set out at the end of this Appendix I.

Due to the nature of the guarantee, the Guaranteed Fund is expected to be a "long term" investment for the Members. Members should note that any redemption, switching out or withdrawal of part or all of their investments from the Guaranteed Fund may have an adverse effect on their qualifying balance(s) and guarantee entitlement under the Underlying Fund. **Hence, Members are strongly advised not to redeem, switch out or withdraw part or all of their investments in the Guaranteed Fund other than 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 Underlying Fund (through the Guaranteed 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 for the Underlying Fund on which it is invested in the Underlying Fund up to (and excluding) the dealing day for the Underlying Fund on which the relevant Units are redeemed by the Member (or his representative) upon the occurrence of a qualifying event. However, if there is a redemption, switching out or withdrawal by the Member from the Guaranteed Fund other than the occurrence of a qualifying event, interest shall be accrued to the adjusted qualifying balance (provided that it is greater than zero) from (and including) the dealing day for the Underlying Fund on which such adjustment is made up to (and excluding) the dealing day for the Underlying Fund on which the relevant Units are redeemed by the Member (or his personal representative) upon the occurrence of a qualifying event.

"New Applicable Rate"

The "new applicable rate" will be 1% per annum which will take effect from 1 October 2004, and subject to the approval of the MPF Authority, such rate may also be adjusted by the Guarantor at a frequency of not more than once every three years. If the "new applicable rate" is adjusted, the Guarantor will notify the Trustee at least 3 months prior to the effective date of the adjustment and the Sponsor will notify employers and Members participating in the Master Trust as soon as practicable thereafter. 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 guarantee rate 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 MPF Ordinance for a payment from the Member's accrued benefits for the purpose of setting off the severance payment or long service payment made to the leaving Member, **the Trustee will only process the claim after it has received the relevant election form or claim form from the Member in respect of his**

accrued benefits. The purpose of so doing is to ensure that any guarantee entitlement of the Member will not be adversely affected by reason of the set off claim made by the employer. However, if the Member fails to submit the election form or claim form within 3 months after the Trustee has been notified of the termination of employment and the accrued benefits are transferred to a preserved account, the set off claim of the employer will be processed at the end of such 3-month period when the accrued benefits are transferred. **Thus, in order to avoid undue delay, Members are advised that their claims for accrued benefits or transfer of such accrued benefits should be submitted as soon as practicable if a severance payment or long service payment has been made to them by their employers.**

In determining the amount of accrued benefits payable to the Member, the qualifying balance of the Member will be calculated. If the qualifying balance is greater than the net asset value of the Units of the Guaranteed 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 Member'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 Member, together with the employee's portion. For illustration, please refer to Scenario 9 – Example 14 set out at the end of this Appendix I.

Pro-rata Calculation of Qualifying Balance

Upon the occurrence of a qualifying event, if the qualifying balance (regardless of whether it is related to mandatory or voluntary contributions) is partly payable to the Member concerned and partly payable to certain other person(s), the amount of such part payments will be calculated on a pro-rata basis according to the respective entitlements of the Member and that other person(s) to the qualifying balance. An example of such situation is where a vesting scale is applicable to the employer's voluntary contributions to be paid to the Member, in which case, the Member will only be entitled to a pro-rated value of the qualifying balance which is attributable to the vested 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 at the end of this Appendix I.

Reserve

In order to assure proper functioning of the Underlying Fund, a reserve for contingency has been established by the Guarantor. There will be a Guarantee charge levied by the Guarantor of up to 1% per annum of the asset value of the Underlying Fund and such Guarantee charge will be deducted from the value of the Underlying Fund. There will be a dilution of performance due to the guarantee structure in place. No part of the reserve will form part of the Master Trust assets or the assets of the Underlying Fund. If the reserve is insufficient to meet the guarantees of the Underlying Fund, the guarantees will be met with assets of the Guarantor. Upon termination of the Underlying Fund, the Guarantor shall distribute to the then existing policyholders (including the Trustee) an amount equal to (i) the aggregated reserve charges deducted from the asset value of each class of units of the Underlying Fund 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. Such distributable amount may be allocated to the Trustee and the then existing policyholders on a pro-rata basis in accordance with their respective amounts of investments in the insurance policy establishing the Underlying Fund. However, if the Guarantor in its reasonable opinion considers that such allocation is not fair and equitable, the Guarantor may allocate the distributable amount in such other manner which the Guarantor may consider fair and equitable, taking into account the prevailing circumstances at the time of distribution. Any such distribution will form part of the assets of the Guaranteed Fund and will be reflected in the price of Units of the Guaranteed Fund.

Changes to Underlying Fund policy

The Guarantor may amend the insurance policy establishing the Underlying Fund (including the terms of the guarantee) subject to approval by the Authority and on giving such notice of the amendment as the Authority may require. The Sponsor will notify employers and Members participating in the Master Trust as soon as practicable thereafter and at least 3 months prior to the effective date of the change.

Termination of the Underlying Fund by the Guarantor

Under the terms of the insurance policy establishing the Underlying Fund, the Guarantor has the right to terminate the insurance policy and the Underlying Fund by giving the Trustee three months' written notice. If the Guarantor terminates the insurance policy and the Underlying Fund 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 Guaranteed Fund upon occurrence of a qualifying event (i.e. with the application of the guarantee). The Trustee will in turn adjust the Unitholdings of the Members in the Guaranteed Fund to reflect such payment. Thereafter, the guarantee will cease to apply under the Guaranteed Fund. The Trustee will then make such other investments as it may consider appropriate, taking into account the prevailing market conditions. The Trustee will also notify the Members of any such investment decisions accordingly.

How the Guarantee works – Examples:

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 Addendum. 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 HK$5,000 is contributed to the Underlying Fund (through the Guaranteed Fund) at the beginning of each year. For each Member investing in the Underlying Fund (through the Guaranteed Fund), a normal account balance ("NB") and a qualifying account balance ("QB"), will be maintained. 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 Underlying Fund, QB indicates the guaranteed amount offered to the Member under the Underlying Fund upon the occurrence of a qualifying event.

4. The NB is the net asset value of the relevant units of the Underlying Fund (before deduction of any bid spread), and may go down as well as up. In other words, the NB will reflect the actual performance of the units held in the Underlying Fund that are attributable to the Member. For illustration purposes, it is assumed that no bid spread will be charged at the Underlying Fund level.

5. The QB is determined based on an annually compounded rate of return of (i) 4% for contributions made on or before 30 September 2004 and/or (ii) 1% for contributions made after 30 September 2004.

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 the sake of simplicity, it is assumed that there are only employer's and employee's mandatory contributions (other than scenario 8 – example 13 where the application of the guarantee on employee's and employer's voluntary contributions 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 of the Underlying Fund on which the actual redemption takes place.

9. In the illustrations, the "qualifying period" means the period for which the Member has invested in the Underlying Fund (through the Guaranteed Fund) and during which no withdrawal has ever been made.

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

(i) the NB in respect of the withdrawn units (less any applicable bid spread at the Underlying Fund level) 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 however, that if following such redemption, switching or withdrawal of units, there are no longer any contributions remaining in the Underlying Fund, the qualifying period will only re-commence from the date on which any new contributions are made to the Underlying Fund (through the Guaranteed 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); and

(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% (i.e., the new applicable rate) after the withdrawal (provided the balance is positive).

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

12. Members should note that the QB of a Member will be determined independent of any of his former employment (other than in the case of "intra-group transfer" as set out in the section headed "Provision of guarantee" in this Appendix I).

<u>*Scenario 1:*</u>

Assumptions:

(a) A Member first invested in the Underlying Fund (through the Guaranteed Fund) on 1 January 2002 and therefore the guaranteed rate of return of 4% 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 QB1 (contributions made on or before 30 September 2004 – subject to 4% rate of return)	End of Year QB2 (contributions made after 30 September 2004 – subject to 1% rate of return)	End of Year Total QB (QB1 + QB2)
2002	1.00%	$5,050.00	12 months	$5,200.00	$ –	$5,200.00
2003	2.00%	$10,251.00	24 months	$10,608.00	$ –	$10, 608.00
2004	9.00%	$16,623.59	36 months	$16,232.32	$ –	$16,232.32
2005	7.00%	$23,137.24	48 months	$16,881.61	$5,050.00	$21,931.61

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, 608.00 ($5,000 x 1.04 x 1.04 + $5,000 x 1.04)

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

Therefore, $10, 608.00 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) of $10,251.00 will be transferred to a preserved account or trustee of a new scheme.

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 = $21,931.61

(i.e., $5,000 x 1.04 x 1.04 x 1.04 x 1.04 + $5,000 x 1.04 x 1.04 x 1.04 + $5,000 x 1.04 x 1.04 + $5,000 x 1.01)

NB = $23,137.24

(i.e.,$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 transferred to a preserved account or trustee of a new scheme.

Scenario 2:

Assumptions:

(a) A Member first invested in the Underlying Fund (through the Guaranteed 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 QB1 (contributions made on or before 30 September 2004 – subject to 4% rate of return)	End of Year QB2 (contributions made after 30 September 2004 – subject to 1% rate of return)	End of Year Total QB (QB1 + QB2)
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 (i.e., $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) of $9,700 will be transferred to a preserved account or trustee of a new scheme.

<u>*Scenario 3:*</u>

Assumptions:

(a) A Member first invested in the Underlying Fund (through the Guaranteed Fund) on 1 January 2002 and therefore the guaranteed rate of return of 4% 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) 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 QB1 (contributions made on or before 30 September 2004 – subject to 4% rate of return)	End of Year QB2 (contributions made after 30 September 2004 – subject to 1% rate of return)	End of Year Total QB (QB1 + QB2)
2002	1.00%	$5,050.00	12 months	$ –	$5,200.00	$ –	$5,200.00
2003	2.00%	$10,251.00	24 months	$ –	$10,608.00	$ –	$10,608.00
2004	9.00%	$16,623.59	36 months	$ –	$16,232.32	$ –	$16,232.32
#2005	7.00%	$13,137.24	0	$10,000	$ –	$11,931.61	$11,931.61

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 $21,931.61

(i.e., $16,232.32 x 1.04 + $5,000 x 1.01, i.e., $16,232.32 was increased at 4% 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 ($21,931.61< $23,137.24), the total QB (for End of Year 2005) will be reduced by the amount withdrawn ($10,000).

Total QB after withdrawal = $21,931.61 – $10,000 = $11,931.61

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 Underlying Fund (through the Guaranteed Fund) on 1 January 2002 and therefore the guaranteed rate of return of 4% 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) 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	Annualised Return	End of Year NB (reflects actual investments)	Qualifying Period (reflects period of investment)	Withdrawal made by Member	End of Year QB1 (contributions made on or before 30 September 2004 – subject to 4% rate of return)	End of Year QB2 (contributions made after 30 September 2004 – subject to 1% rate of return)	End of Year Total QB (QB1 + QB2)
2002	1.00%	$5,050.00	12 months	$ –	$5,200.00	$ –	$5,200.00
2003	2.00%	$10,251.00	24 months	$ –	$10,608.00	$ –	$10,608.00
2004	9.00%	$16,623.59	36 months	$ –	$16,232.32	$ –	$16,232.32
#2005	7.00%	$137.24	0	$23,000	$ –	$(1,068.39)	$(1,068.39)
#2006	-12.00%	$120.77	12 months	$ –	$ –	$(1,068.39)	$(1,068.39)
#2007	10.00%	$5,632.85	24 months	$ –	$ –	$3,970.93	$3,970.93

These illustrate the position after a withdrawal.

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

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

Illustrative Example 7:

As of 31 December 2005, Member 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 (i.e., $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 withdrawal was $137.24 (i.e., $23,137.24 – $23,000).

Total QB (i.e. QB1 + QB2, for End of Year 2005) before withdrawal was $21,931.61 (i.e., $16,232.32 x 1.04 + $5,000 x 1.01, i.e. $16,232.32 was increased at 4% 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 (i.e., $21,931.61 <$23,137.24), the total QB (for End of Year 2005) will be reduced by the amount withdrawn ($23,000).

Total QB after withdrawal = $21,931.61 – $23,000 = - $1,068.39

– a negative QB does not mean that the Member owes the Trustee 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

$-1,068.39 (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 transferred to a preserved account or trustee of a new scheme.

Scenario 5:

Assumptions:

(a) A Member first invested in the Underlying Fund (through the Guaranteed Fund) on 1 January 2002 and therefore the guaranteed rate of return of 4% 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	Annualised Return	End of Year NB (reflects actual investments)	Qualifying Period (reflects period of investment)	Withdrawal made by Member	End of Year QB1 (contributions made on or before 30 September 2004 – subject to 4% rate of return)	End of Year QB2 (contributions made after 30 September 2004 – subject to 1% rate of return)	End of Year Total QB (QB1 + QB2)
2002	1.00%	$5,050.00	12 months	$ –	$5,200.00	$ –	$5,200.00
2003	2.00%	$10,251.00	24 months	$ –	$10,608.00	$ –	$10,608.00
2004	0.00%	$15,251.00	36 months	$ –	$16,232.32	$ –	$16,232.32
#2005	7.00%	$668.57	0	$21,000	$ –	$668.57	$668.57

This illustrates the position after a withdrawal.

Example 9 illustrates how a partial withdrawal from the Guaranteed 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 $21,000 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.

Total NB (for End of Year 2005) before withdrawal was $21,668.57 (i.e., $15,251.00 x 1.07 + $5,000 x 1.07 i.e. $15,251.00 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 $21,931.61 (i.e. $16,232.32 x 1.04 + $5,000 x 1.01, i.e. $16,232,32 was increased at 4% 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 = $21,668.57 – $21,000
= $668.57

Since the total QB (for End of Year 2005) is greater than the NB (for End of Year 2005) immediately before the withdrawal ($21,931.61 >$21,668.57), 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
= $668.57

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 Underlying Fund (through the Guaranteed Fund) on 1 January 2002 and therefore the guaranteed rate of return of 4% 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	Annualised Return	End of Year NB (reflects actual investments)	Qualifying Period (reflects period of investment)	Withdrawal made by Member	End of Year QB1 (contributions made on or before 30 September 2004 – subject to 4% rate of return)	End of Year QB2 (contributions made after 30 September 2004 – subject to 1% rate of return)	End of Year Total QB (QB1 + QB2)
2002	1.00%	$5,050.00	12 months	$ –	$5,200	$ –	$5,200.00
2003	2.00%	$10,251.00	24 months	$ –	$10,608.00	$ –	$10,608.00
2004	9.00%	$16,623.59	36 months	$ –	$16,232.32	$ –	$16,232.32
#2005	7.00%	$ –	0*	$23,137.24 (full withdrawal)	$ –	$(1,205.63)	$(1,205.63)
#2006	-12.00%	$ –	0*	$ –	$ –	$(1,205.63)	$(1,205.63)
#2007	10.00%	$5,500.00	12 months	$ –	$ –	$3,832.31	$3,832.31

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 Guaranteed Fund (where QB<NB) may make the QB "negative".

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

Illustrative Example 10:

As of 31 December 2005, Member requests full withdrawal (i.e., $23,137.24 and transfers 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(i.e., $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 was full withdrawal).

Total QB (i.e. QB1 + QB2, both for End of Year 2005) before withdrawal was $21,931.61(i.e., $16,232.32 x 1.04 + $5,000 x 1.01, i.e. $16,232.32 was increased at 4% 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 (i.e. $21,931.61<$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 is $21,931.61 – $23,137.24 = - $1,205.63

– a negative QB does not mean that the Member owes the Trustee 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 $-1,205.63 (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 Guaranteed 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) will be transferred to a preserved account or trustee of a new scheme.

Scenario 7:

Assumptions:

(a) A Member first invested in the Underlying Fund (through the Guaranteed Fund) on 1 January 2002 and therefore the guaranteed rate of return of 4% 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 Return Annualised of the Fund	End of Year NB (reflects actual investments)	Qualifying Period (reflects period of investment)	Withdrawal made by Member	End of Year QB1 (contributions made on or before 30 September 2004 – subject to 4% rate of return)	End of ear QB2 (contributions made after 30 September 2004 – subject to 1% rate of return)	End of Year Total QB (QB1 + QB2)
2002	1.00%	$5,050.00	12 months	$ –	$5,200.00	$ –	$5,200.00
2003	2.00%	$10,251.00	24 months	$ –	$10,608.00	$ –	$10,608.00
2004	0.00%	$15,251.00	36 months	$ –	$16,232.32	$ –	$16,232.32
#2005	7.00%	$ –	0*	$21,668.57 (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 Guaranteed 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., $21,668.57) and transfers 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 $21,668.57(i.e., $15,251.00 x 1.07 + $5,000 x 1.07, i.e. $15,251.00 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 $21,931.61(i.e., $16,232.32 x 1.04 + $5,000 x 1.01, i.e. $16,232.32 was increased at 4% 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
= $21,668.57 – $21,668.57
= $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 (i.e., $21,931.61>$21,668.57), 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 Underlying Fund (through the Guaranteed Fund) on 1 January 2002 and therefore the guaranteed rate of return of 4% 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 QB1 (4%) (voluntary contributions made on or before 30 September 2004 – subject to 4% rate of return)	End of Year QB2 (1%) (voluntary contributions made after 30 September 2004 – subject to 1% rate of return)	End of Year Total QB (QB1 + QB2)
2002	1.00%	$2,525.00	12 months	$2,600.00	$ –	$2,600.00
2003	2.00%	$7,675.50	24 months	$7,904.00	$ –	$7,904.00

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

Employer voluntarily contributes $2,500 at the beginning of each year and first invested in the Guaranteed Fund on 1 January 2002.

Member voluntarily contributes $2,500 at the beginning of each year and first invested in the Guaranteed Fund on 1 January 2003.

Member was employed since 1 January 2002.

The vesting scale of employer voluntary contributions according to the number year of service is shown as follows:

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

Illustrative Example 13:

As of 31 December 2003, Member departed from Hong Kong permanently. 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 permanent departure from Hong Kong is a qualifying event, the greater of the (i) total QB (i.e. QB1 + QB2, both for End of Year 2003) and (ii) the NB (for End of Year 2003) will be paid.

However, Member will only be entitled to a pro-rata value of the total QB which is attributable to the vested benefits of the Member, and the remaining 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 voluntary contributions will be determined based on the NBs (for End of Year 2003) of employer's and Member's voluntary contributions.

NB of Member's voluntary contributions = $2,550.00
i.e., ($2,500 x (1 + 2%))

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

Total QB of Member's voluntary contributions = $2,625.91
i.e., ($7,904.00 x ($2,550.00 / $7,675.50)) (where $7,675.50 is the sum of $2,550.00 and $5,125.50)

Total QB of employer's voluntary contributions = $5,278.09
i.e., ($7,904.00 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 the Member's own voluntary contributions and 10% of the employer's voluntary contributions because the Member has completed 2 years of service. Therefore, $3,153.72 is paid to Member i.e., ($2,625.91 + (10% x $5,278.09)) and $4,750.28 (90% x $5,278.09) is paid to employer.

Scenario 9 : Employer makes a claim for Severance Payment

Assumptions:

(a) A Member first invested in the Underlying Fund (through the Guaranteed Fund) on 1 January 2002 and therefore the guaranteed rate of return of 4% 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 Member. All contributions are fully vested in the Member.

(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 QB1 (contributions made on or before 30 September 2004 – subject to 4% rate of return)	End of Year QB2 (contributions made after 30 September 2004 – subject to 1% rate of return)	End of Year Total QB (QB1 + QB2)
2002	1.00%	$5,050.00	12 months	$5,200.00	$ –	$5,200.00
2003	2.00%	$10,251.00	24 months	$10,608.00	$ –	$10,608.00
2004	9.00%	$16,623.59	36 months	$16,232.32	$ –	$16,232.32
2005	1.00%	$21,839.83	48 months	$16,881.61	$5,050.00	$21,931.61

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

Illustrative Example 14: As of 31 December 2005, Member's employment is terminated. Employer pays a severance payment of $5,000 to Member 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 Member is 48 months, there is a qualifying event. The Member 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 = $21,931.61
= ($5,000 x 1.04 x 1.04 x 1.04 x 1.04 + $5,000 x 1.04 x 1.04 x 1.04 + $5,000 x 1.04 x 1.04 + $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)

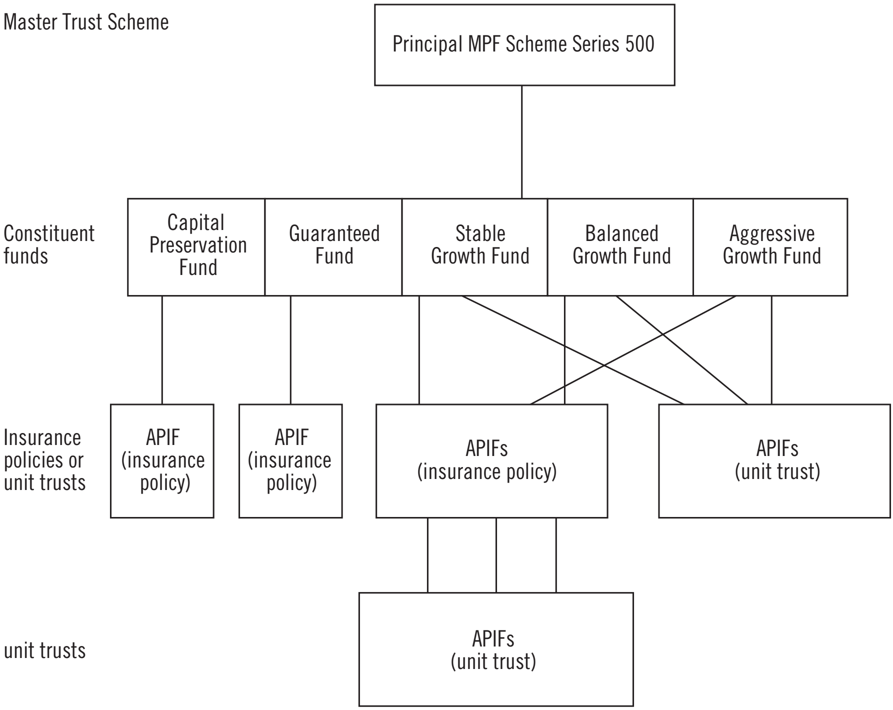
Therefore, the Member will be entitled to $21,931.61. However, the employer has made a claim of $5,000 and such an amount shall be paid to the employer from the pro-rata value of the total QB which is attributable to the employer's contributions.

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	=	$10,965.81 ($21,931.61 x (10,919.92 / 21,839.83))
Total QB of employer's contributions	=	$10,965.81 ($21,931.61 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. $10,965.81). As a result, the Member will only receive an amount of $16,931.62 (i.e. $10,965.81 + ($10,965.81 – $5,000)) and the employer will receive the set-off payment of $5,000.

Appendix II


Master Trust Scheme
Principal MPF Scheme Series 500
Constituent funds
Capital Preservation Fund
Guaranteed Fund
Stable Growth Fund
Balanced Growth Fund
Aggressive Growth Fund
Insurance policies or unit trusts
APIF (insurance policy)
APIF (insurance policy)
APIFs (insurance policy)
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unit trusts
APIFs (unit trust)