

Principal MPF Scheme Series 600 Principal Brochure

一 步 步 致 富
Steady Growth Will Win

Principal®

信安

**ON-GOING COST ILLUSTRATIONS FOR
PRINCIPAL MPF SCHEME SERIES 600**

Issued 30 June 2010

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 600		Fund expense ratio for financial period ended 12/09	Cost on each HK\$1,000 contributed		
			After 1 year (HK\$)	After 3 years (HK\$)	After 5 years (HK\$)
Principal Global Growth Fund	Direct Charge Option	1.35%	14	44	76
	Indirect Charge Option	1.80%	19	58	101
Principal HK Dollar Savings Fund	Direct Charge Option	1.36%	14	44	77
	Indirect Charge Option	1.60%	17	52	90
Principal Long Term Accumulation Fund	Direct Charge Option	1.35%	14	44	76
	Indirect Charge Option	1.80%	19	58	101
Principal Long Term Guaranteed Fund	Direct Charge Option	2.60%	27	84	143
	Indirect Charge Option	3.02%	32	97	164

Note:

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

28 August 2009

Principal Trust Company (Asia) Ltd.
11/F, Island Place Tower
510 King's Road
North Point, Hong Kong
Tel : (852) 2263 0263
Fax : (852) 2827 1707
Website : www.principal.com.hk

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 600. 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 600 (the "Scheme")

Thank you for your continual support to the Principal MPF Scheme Series 600. We would like to inform you that the following changes shall be made to the Scheme:

(I) Amendments to the Principal Brochure

(a) Name change in respect of Principal Capital Preservation Fund

With effect from 30 September 2009, Principal Capital Preservation Fund shall be renamed as Principal MPF Conservative Fund. All references to "Principal Capital Preservation Fund" in the Principal Brochure shall be amended to "Principal MPF Conservative Fund".

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

(b) Others

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

IMPORTANT NOTES

1. Principal MPF Scheme Series 600 ("Scheme") is an MPF Scheme.
2. All constituent funds under this Scheme invest solely 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 Principal Long Term 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 7 of this Principal Brochure under the section "Provision of Guarantee" for details of the guarantee conditions.
4. Investment in Principal HK Dollar Savings Fund is different from placing deposits with a bank or deposit-taking company and is not protected by the Deposit Protection Scheme. Investment in this fund will be subject to investment risks.
5. Fees and charges of a MPF conservative fund can be deducted from either (i) the assets of the fund or (ii) members' account by way of unit deduction. The Principal MPF Conservative Fund uses method (i) and, therefore, unit prices/net asset value/fund performance quoted have incorporated the impact of fees and charges.
6. 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.
7. 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 Principal HK Dollar Savings 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, Principal Capital Preservation Fund shall be renamed as Principal MPF Conservative Fund. All references to "Principal Capital Preservation Fund" in the Trust Deed shall be amended to "Principal MPF Conservative Fund".

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 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 Trust Company (Asia) Limited

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

PRINCIPAL MPF SCHEME SERIES 600
信安強積金計劃 600 系列 (the “SCHEME”)
FOURTH ADDENDUM

This Fourth Addendum should be read in conjunction with and form part of the Principal Brochure (Ref.: 1/2006) (the “**Principal Brochure**”), the First Addendum dated 1 May 2006, the Second Addendum dated 30 November 2007 and the Third Addendum dated 4 September 2008 for the Principal MPF Scheme Series 600. All capitalised terms in this Fourth Addendum shall have the same meaning as in the Principal Brochure, unless otherwise stated.

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

(A) Name change in respect of Principal Capital Preservation Fund

Principal Capital Preservation Fund shall be renamed as Principal MPF Conservative Fund. All references to “Principal Capital Preservation Fund” in the Principal Brochure shall be amended to “Principal MPF Conservative Fund”.

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

(B) Others

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

IMPORTANT NOTES

1. Principal MPF Scheme Series 600 (“Scheme”) is an MPF Scheme.
2. All constituent funds under this Scheme invest solely 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 Principal Long Term 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 7 of this Principal Brochure under the section “Provision of Guarantee” for details of the guarantee conditions.
4. Investment in Principal HK Dollar Savings Fund is different from placing deposits with a bank or deposit-taking company and is not protected by the Deposit Protection Scheme. Investment in this fund will be subject to investment risks.
5. Fees and charges of a MPF conservative fund can be deducted from either (i) the assets of the fund or (ii) members’ account by way of unit deduction. The Principal MPF Conservative Fund uses method (i) and, therefore, unit prices/net asset value/fund performance quoted have incorporated the impact of fees and charges.

6. 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.
7. 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 Principal HK Dollar Savings Fund, and such fund may not necessarily be a suitable investment for you.

28 August 2009

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 600. 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 600 信安強積金計劃 600 系列 (the “Scheme”)

Thank you for your continual support to the Principal MPF Scheme Series 600.

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

(I) Amendments to the Principal Brochure

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

- (i) Currently, the approved pooled investment fund (“APIF”) invested by the Principal Long Term Guaranteed Fund invests directly in a portfolio of fixed income and equity securities; after the proposed changes, the APIF will in turn invest in two or more APIFs and/or approved index-tracking collective investment schemes; and
- (ii) The target ranges of asset allocation and geographic allocation of the Principal Long Term Guaranteed 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 Third Addendum.

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

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;

- (b) With effect from 4 December 2008, the investment structure of the Principal Global Growth Fund will be changed as follows :
- (i) Currently, this constituent fund invests in two or more approved pooled investment funds (“APIFs”) (in the form of an insurance policy or a unit trust) and each investment fund may in turn make direct investments or invest in an APIF or invest in two or more APIFs and/or approved index-tracking collective investment schemes (“ITCIS”); after the proposed changes, this constituent fund will invest in an APIF (in the form of an insurance policy) which will in turn invest in two or more APIFs and/or ITCIS; and
 - (ii) Currently, this constituent fund may acquire or hold financial futures contracts or financial options contracts, but only for the purpose of hedging; after the proposed changes, this constituent fund may not enter into any financial futures contracts or financial options contracts;
- (c) With effect from 4 December 2008, self-employed persons and preserved members may withdraw the accrued benefits attributable to their voluntary contributions free of charge for the first four withdrawals in each financial year but starting from the fifth withdrawal, a handling charge of up to HK\$300 may be imposed on each withdrawal; and
- (d) With immediate effect, amendments will be made to the Principal Brochure of the Scheme to reflect the recent legislative changes. For example, “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 Third Addendum attached. This Third Addendum should be read in conjunction with and forms part of the Principal Brochure of the Scheme. Please read the Third Addendum carefully.

(II) Amendments to the Trust Deed

Certain amendments shall be made to the trust deed of the Scheme by the Trustee, and the major changes are set out below :

- (a) With effect from 4 December 2008, provisions relating to the withdrawal of accrued benefits attributable to the voluntary contributions of self-employed persons and preserved members set out in Section (I)(c) above shall be inserted;
- (b) With immediate effect,
 - (i) provisions reflecting the recent legislative amendments as mentioned in Section (I)(d) above shall be inserted; and
 - (ii) provisions shall be inserted to clarify that the valuation date of the accrued benefits payable upon attaining the age of 65, early retirement at the age of 60, death, permanent departure from Hong Kong, retirement on the ground of total incapacity, claim on the ground of small balance or cessation of employment of a member should be the dealing day as soon as reasonably practicable after the date of receipt of all necessary documents by the Trustee for making benefit payment of the claim.

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 Trust Company (Asia) Limited

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

PRINCIPAL MPF SCHEME SERIES 600
信安強積金計劃 600 系列 (the “SCHEME”)
THIRD ADDENDUM

This Third Addendum should be read in conjunction with and forms part of the Principal Brochure (Ref.: 1/2006) (the “**Principal Brochure**”), the First Addendum dated 1 May 2006 and the Second Addendum dated 30 November 2007 for the Principal MPF Scheme Series 600. All capitalised terms in this Third Addendum shall have the same meaning as in the Principal Brochure, unless otherwise stated.

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

(A) Change of Investment Structure of Principal Long Term Guaranteed Fund

- (a) The diagram depicting the investment structure of the Constituent Funds on page 6 shall be deleted in its entirety and replaced by the diagram in the Annex to this Third Addendum.
- (b) The “Investment Policy” sub-section under the “Principal Long Term Guaranteed Fund” section on pages 10 to 11 shall be deleted in its entirety and replaced by the following:

“Investment Policy

The objective of the fund is to provide a competitive long-term total rate of return, while also providing a minimum guaranteed average annual return over the career of the members.

This type of guarantee is called a **Long Term Guarantee**, which adopts a longer-term investment philosophy. The Guarantor of the capital and the guaranteed rate of return for the fund is Principal Insurance Company (Hong Kong) Limited, the provider of the underlying insurance policy which is an APIF.

This fund will invest in an underlying APIF which is an insurance policy and is also managed by the Investment Manager. The underlying APIF will invest in two or more APIFs and/or Index-Tracking Collective Investment Schemes (as defined in Part 1 of Schedule 1 to the MPF Schemes (General) Regulation) approved by the MPFA for investment by provident fund schemes registered under the MPFS Ordinance (“ITCIS”). In selecting these APIFs and ITCIS, the Investment Manager will seek to achieve the objectives of the fund.

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

The underlying investments will consist of debt and equity securities. Such securities may be denominated in HK dollars, US dollars or other currencies, and consistent with the overall risk-return objectives and permissible geographical allocation (as set out below) of the fund. Currently, the Hong Kong dollar is pegged to the US dollar but the fund makes no assurance that this relationship will continue, necessitating flexibility for the Investment Manager to choose assets in other currencies. Exposure to assets denominated in any currency other than the Hong Kong dollar can bring potential gains or losses to the fund as the fund itself is denominated in Hong Kong dollars. As the fund indirectly owns debt and equity securities, members investing in the fund will experience gains and losses on these securities as markets fluctuate. The fund is denominated in Hong Kong dollars.

The fund may not enter into any financial futures contracts or financial options contracts. The target ranges of asset allocation and geographic allocation of this fund are as follows:

<u>Asset Allocation*</u>	<u>Range</u>
Equity Securities	10-55%
Debt Securities	25-90%
Cash & Short-term Investments (e.g. bills and deposits)	0-20%
<u>Geographic Allocation*</u>	<u>Range</u>
United States and Greater China	40-100%
Other Asia	0-50%
Europe	0-50%
Other Countries	0-50%

The fund will maintain at least 30% in Hong Kong dollar currency investments, as measured by “effective currency exposure” as defined in the MPF Schemes (General) Regulation, Schedule 1, Part III.

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

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

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

(B) Change of Investment Structure of Principal Global Growth Fund

The “Principal Global Growth Fund” section on page 12 shall be amended as follows :

- (a) by deleting the first two sentences of the first paragraph in their entirety and replacing them by the following :

“The objective of this fund is to seek long-term growth of capital through investing in an APIF which is an insurance policy and is also managed by the Investment Manager. The APIF will in turn invest in two or more APIFs and/or ITCIS, and in selecting these APIFs and ITCIS, the Investment Manager will seek to achieve the objective of this fund.”; and

- (b) by deleting the second paragraph in its entirety and replacing it by the following :

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

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

(C) Handling Charge

- (a) The “Voluntary Contributions” section on page 3 shall be amended by deleting the last sentence of the third paragraph in its entirety and replacing it by the following:

“Self-employed persons and preserved members may also withdraw accrued benefits attributable to their voluntary contributions, and the first four withdrawals in each financial year will be free of charge but starting from the fifth withdrawal in each financial year, a handling charge of up to HK\$300 may be imposed for each withdrawal and deducted from the withdrawal amount.”

- (b) The following new section (E) shall be inserted after section (D) of the “Fees and Charges” table on page 16 :

(E) FEES AND CHARGES FOR THE PROVISION OF ADDITIONAL SERVICES				
Types of fees & charges	Name of constituent fund	Current level		Payable by
		Direct Charge Option^(a)	Indirect Charge Option^(a)	
Handling charge ⁹	All constituent funds	Nil for the first 4 withdrawals in each financial year; thereafter, up to HK\$300 per withdrawal	Nil for the first 4 withdrawals in each financial year; thereafter, up to HK\$300 per withdrawal	Self-Employed Person and Preserved Member

- (c) The following new Note 9 shall be inserted after Note 8 under the “Definitions” section on page 17 :

“ “Handling charge” means the fee charged by the trustee/sponsor of the Scheme upon withdrawal of accrued benefits attributable to voluntary contributions by self-employed persons and preserved members. The first four withdrawals in each financial year will be free of charge but starting from the fifth withdrawal in each financial year, the trustee may impose a fee of up to HK\$300 on each withdrawal. The handling charge will be deducted from the withdrawal amount.”.

The changes set out in Sections (D) and (E) below shall take immediate effect:

(D) Amendments Relating to Recent Legislative Changes

- (a) The first three paragraphs under the “Mandatory Contributions” section on pages 2 and 3 shall be deleted in their entirety and replaced by the following:

“As required by law and subject to any exemptions under the law, employees and self-employed persons of the age of 18 or above but below 65, should contribute to the Scheme at the rate of 5% (or such other percentage prescribed by the Mandatory Provident Fund Schemes Ordinance (“**MPFS Ordinance**”) or the Mandatory Provident Fund Schemes (General) Regulation) of their relevant income as mandatory contributions. Employers should also contribute to the Scheme in respect of each employee (who is the age of 18 or above but below 65) employed by them at the rate of 5% (or such other percentage prescribed by the MPFS Ordinance or the Mandatory Provident Fund Schemes (General) Regulation) of the employee’s relevant income as mandatory contributions.

“Relevant income” is defined in Section 2 of the MPFS Ordinance as amended from time to time. Before 1 November 2008, Relevant Income includes any wages, salaries, leave pay, fees, commissions, bonuses, gratuities, perquisites or allowances, expressed in monetary terms, paid or payable by an employer to an employee in consideration of his employment under his employment contract but excludes any housing allowance, other housing benefit, any severance or long service payments. 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.

If the relevant income of an employee is less than the statutory minimum level of income, he is not required to make mandatory contribution. The employer, however, must still pay its mandatory contributions in respect of that employee. The statutory minimum level of relevant income for employees is HK\$5,000 per month, and that for self-employed persons is HK\$5,000 per month or HK\$60,000 per year (or such other amount defined as the minimum level of relevant income from time to time in section 2 of the MPFS Ordinance).

If the relevant income of an employee is more than the statutory maximum level of relevant income, the mandatory contributions from each of the employer and employee are capped at 5% (or such other percentage as prescribed from time to time by the MPFS Ordinance or the Mandatory Provident Fund Schemes (General) Regulation) of the statutory maximum level of relevant income, which is currently HK\$1,000 (i.e. 5% of HK\$20,000). The statutory maximum level of relevant income for employees is HK\$20,000 per month, and that for self-employed persons is HK\$20,000 per month or HK\$240,000 per year (or such other amount defined as the maximum level of relevant income from time to time in section 2 of the MPFS Ordinance).”

- (b) The paragraph under the “Small Claim” section on page 3 shall be deleted in its entirety and replaced by the following :

“Subject to any conditions prescribed in the MPFS Ordinance and the Mandatory Provident Fund Schemes (General) Regulation, a Member may elect to withdraw his accrued benefits under the Scheme when the balance of his accrued benefits is less than HK\$5,000 (or such other amount as prescribed from time to time by the MPFS Ordinance or the Mandatory Provident Fund Schemes (General) Regulation).”

(E) Other Amendments

- (a) The “Principal Long Term Accumulation Fund” section on pages 11 and 12 shall be amended as follows :

- (i) The second sentence of the first paragraph shall be deleted in its entirety and replaced by the following :

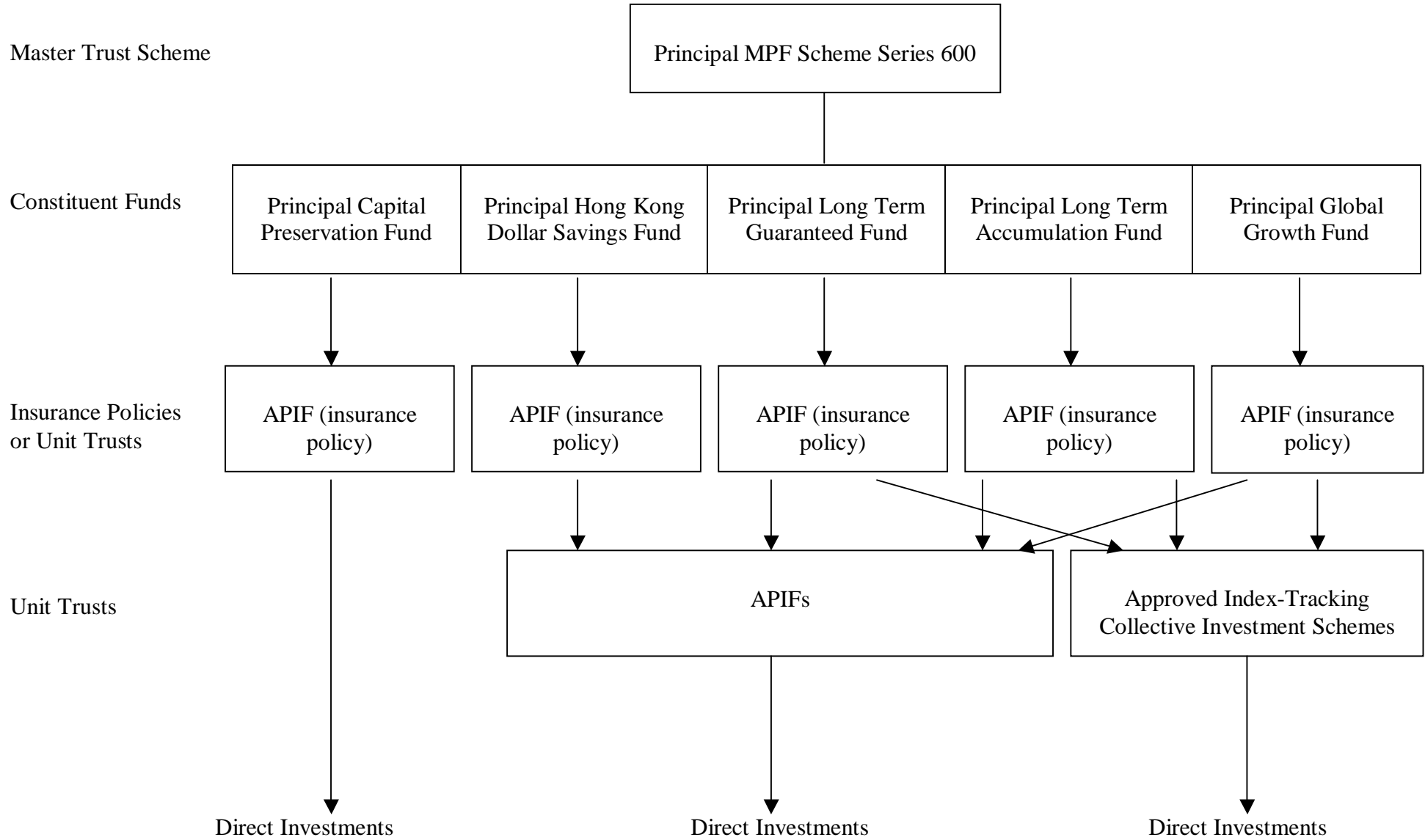
“The fund will invest in an investment fund under an insurance policy which is also managed by the Investment Manager.”; and

- (ii) All references to “fixed income securities” shall be replaced by the “debt securities”.

- (b) The first sentence of the second paragraph of Note (a) under the “Explanatory Notes” section on page 17 shall be deleted in its entirety and replaced by the following :

“Both employer and employee fees will apply to self-employed persons who will be subject to Indirect Charge Option only if joining the Scheme on or after 1 October 2004.”

Annex



**ILLUSTRATIVE EXAMPLE FOR
PRINCIPAL CAPITAL PRESERVATION FUND OF THE
PRINCIPAL MPF SCHEME SERIES 600
(FOR INDIRECT CHARGE OPTION)**

Issued Date: 1 Jan 2008

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 : **\$56**.

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 Principal Brochure.



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

30 November 2007

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

This notice should be read by all the participating employers, employee members, self-employed persons and preserved account holders of Principal MPF Scheme Series 600. 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 600 信安強積金計劃 600 系列 (the “Scheme”)

Thank you for your continual support to the Principal MPF Scheme Series 600.

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

- (a) With effect from 1 March 2008, the investment structure of the Principal Long Term Accumulation Fund will be changed so that the approved pooled investment fund (“APIF”) invested by this constituent fund may in turn invest in two or more APIFs and/or approved index-tracking collective investment schemes (“ITCIS”). The investment structure of the Principal Global Growth Fund will also be changed so that each of the APIFs invested by this constituent fund may in turn make direct investments or invest in an APIF or invest in two or more APIFs and/or ITCIS. There will be no change in the level of fees and charges payable by the members under the Scheme;
- (b) With effect from 1 January 2008, the management fee charged to the Principal Capital Preservation Fund under the indirect charge option will be reduced from “up to 1.50%” to “up to 1.25%”, and the total amounts of annual fees in the Illustrative Example for the Principal Capital Preservation Fund (For Indirect Charge Option) will be revised from HK\$66 to HK\$56. The management fees charged to the Principal HK Dollar Savings Fund under the indirect charge option will be reduced from “up to 1.75%” to “up to 1.50%”; and
- (c) The fees and charges table has been updated as a result of the changes in management fees set out in (b) above.

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

Yours faithfully,

Principal Trust Company (Asia) Limited

This is a computer generated printout and no signature is required

PRINCIPAL MPF SCHEME SERIES 600
信安強積金計劃 600 系列 (the “SCHEME”)
SECOND ADDENDUM

This Second Addendum should be read in conjunction with and forms part of the Principal Brochure dated January 2006 (the “**Principal Brochure**”) and the First Addendum dated 1 May 2006 for the Principal MPF Scheme Series 600. All capitalised terms in this Second Addendum have the same meaning as in the Principal Brochure, unless otherwise stated.

The changes set out in Section (A) below shall take effect from 1 March 2008 :

(A) Change of Investment Structure

(a) The diagram depicting the investment structure of the Constituent Funds on page 6 shall be deleted in its entirety and replaced by the diagram in the Annex to this Second Addendum.

(b) The fourth sentence of the first paragraph of the “Principal Long Term Accumulation Fund” section on page 11 shall be deleted in its entirety and replaced by the following:

“The investment fund will in turn invest in two or more APIFs and/or Index-Tracking Collective Investment Schemes (as defined in Part 1 of Schedule 1 to the Mandatory Provident Fund Schemes (General) Regulation) approved by the MPFA for investment by provident fund schemes registered under the MPFS Ordinance (“ITCIS”), and in selecting these APIFs and ITCIS, the Investment Manager will seek to achieve the objective of this fund.”

(c) The second sentence of the first paragraph of the “Principal Global Growth Fund” section on page 12 shall be deleted in its entirety and replaced by the following:

“Each investment fund may in turn make direct investments or invest in an APIF or invest in two or more APIFs and/or ITCIS, and in selecting these APIFs and ITCIS, the Investment Manager will seek to achieve the objective of this fund.”

(d) Footnote 7 under the “Definitions” section on page 17 shall be deleted in its entirety and replaced by the following :

“7. “Management fees” include fees paid to the trustee, custodian, administrator, investment manager (including fees based on fund performance, if any) and sponsor of a scheme for providing their services to the relevant fund. Such fees are usually charged as a percentage of the net asset value of a fund. As stated in table D, no “management fees” will be charged for the underlying funds including the ITCIS, which will be fully borne by the Manager.”

The fees and charges in table D shall remain unchanged.

The changes set out in Sections (B) and (C) below shall take effect from **1 January 2008** :

(B) Reduction of Management Fees

The “Annual Fund Operating Charges & Expenses of Constituent Funds” section on page 16 shall be amended as follows :

- (a) The section heading shall be replaced by “(C) FUND OPERATING CHARGES & EXPENSES OF CONSTITUENT FUNDS^(d)”; and
- (b) The rates of management fees shall be deleted in their entirety and replaced by the following :

Types of charges & expenses	Name of constituent fund	Current level (% p.a. of NAV)		Deducted from
		Direct Charge Option ^(a)	Indirect Charge Option ^(a)	
Management fees ⁷	Principal Capital Preservation Fund ^(e)	1.25%	Up to 1.25%	Relevant constituent fund assets, AND relevant member’s account by unit deduction (maximum of 0.50% will be from unit deduction)
	Principal Long Term Guaranteed Fund ^(f)	1.50%	Up to 2.00%	
	Principal HK Dollar Savings Fund	1.25%	Up to 1.50%	
	All other constituent funds	1.25%	Up to 1.75%	

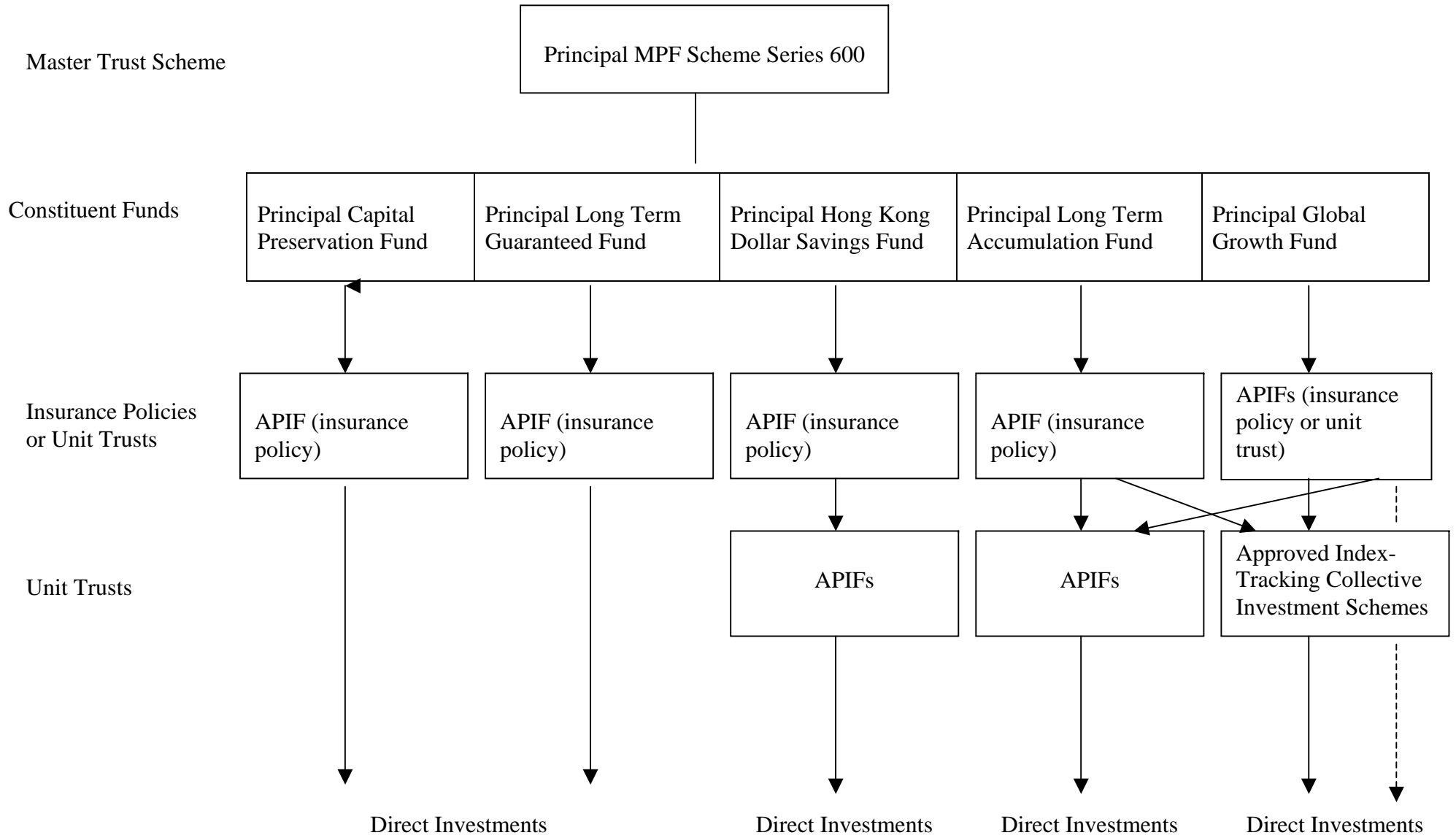
The total amounts of annual fees in the Illustrative Example for the Principal Capital Preservation Fund (For Indirect Charge Option) will be revised from HK\$66 to HK\$56.

(C) Other Changes

The first sentence of the paragraph under the “On-going Cost Illustrations” section on page 18 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 Principal Brochure.”

Annex



**First Addendum to the Principal Brochure
version dated January 2006 of the Principal MPF Scheme Series 600**

This Addendum is supplemental to and should be read in conjunction with the Principal Brochure version dated January 2006 of the Principal MPF Scheme Series 600 (the "Scheme").

Effective date of amendment: Immediate Effect

1. Fees and Charges (page 15)

The amendment relates to the levy of a Joining Fee to the Scheme. The Joining Fee which is currently not applicable will be levied up to HK\$1,000 on Self-Employed Person with immediate effect.

The Joining fee, as disclosed in page 15 under heading (A) "JOINING FEE & ANNUAL FEE", shall be replaced as follows:

(A) JOINING FEE & ANNUAL FEE			
Types of fees	Current amount (HK\$ or % of contribution amount)		Payable by
	Direct Charge Option^(a)	Indirect Charge Option^(a)	
Joining fee ¹	N/A	Up to \$1,000	Self-Employed Person

1 May 2006

日期為 2006 年 1 月的主要推銷刊物第一號附件

本附件將構成信安強積金計劃 600 系列(「本計劃」)日期為 2006 年 1 月的主要推銷刊物的補充部份，並應與主要推銷刊物一併閱讀。

修訂之生效日期：即時生效

1. 費用及收費 (第 15 頁)

本修訂關於本計劃收取計劃參加費。現時本計劃不收取計劃參加費，但由即日起，本計劃將向自僱人士收取不高於港幣 1,000 元之計劃參加費。

第 15 頁標題 (A) 「計劃參加費及年費」內之計劃參加費資料將以下列取代:

(A) 計劃參加費及年費			
費用類別	現行收費 (港幣或按供款額的%計算)		付款人
	直接收費選擇^(a)	間接收費選擇^(a)	
計劃參加費 ¹	不適用	不高於 1,000	自僱人士

2006 年 5 月 1 日

CONTENTS

INTRODUCTION	2
STRUCTURE	2
SCHEME PROVISIONS	2
Eligibility	2
Mandatory Contributions	2
Voluntary Contributions	3
Mode of Contribution	3
Normal Retirement Benefit	3
Early Retirement Benefit	3
Late Retirement Benefit	3
Permanent Total Incapacity or Death	3
Permanent Departure from Hong Kong	3
Small Claim	3
Resignation or Termination before Retirement Age	4
Payment or Transfer of Benefits	4
Reports and Member Accounts	4
Financial Year End	4
Deferral or Suspension of Dealings	4
MPF/GOVERNMENT/OTHER REGULATIONS	5
Mandatory Provident Fund Schemes Ordinance	5
Long Service Payment and Severance Payment Compatibility	5
Taxation	5
Authorisation by the Securities and Futures Commission	5
INVESTMENT OPTIONS — CONSTITUENT FUNDS	6
Principal Long Term Guaranteed Fund	7
Principal Long Term Accumulation Fund	11
Principal HK Dollar Savings Fund	12
Principal Global Growth Fund	12
Principal Capital Preservation Fund	13
PRICING AND VALUATION	14
Unitisation	14
Valuation Date	14
Valuation	14
RESTRICTIONS	14
PARTICIPATING IN THE PRINCIPAL MPF SCHEME SERIES 600	14
FEES AND CHARGES	15
ON-GOING COST ILLUSTRATIONS	18
SERVICES	18
MISCELLANEOUS	18
Rebates	18
Transferring from an existing MPF scheme	19
Termination of your Participation in the Scheme	19
Our Responsibility	19
Principal TeleTouch®	19
Internet Website	19
Service Providers	19
APPENDIX — Illustrations of the guarantee features of the Principal Long Term Guaranteed Fund	20

INTRODUCTION

Principal Trust Company (Asia) Limited, is pleased to bring to Hong Kong a unique MPF scheme, the Principal MPF Scheme Series 600 (the “Scheme”), which is designed with the flexibility needed to meet the challenges of today and tomorrow.

As a member of the Principal Financial Group, Principal Trust Company (Asia) Limited has full access to a diversified network of financial services expertise in a variety of specialties including but not limited to life, disability and health insurance, mutual funds, investment management and pension plans.

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 outstanding customer service and financial stability throughout its more than 250 locations worldwide including the United States, Europe, Latin America and Asia.

With the Principal MPF Scheme Series 600, employers and members alike can take advantage of a systematic way to save for retirement and ensure comfort and security in their retirement years.

STRUCTURE

The Principal MPF Scheme Series 600 is a master trust scheme with Principal Trust Company (Asia) Limited acting as the Trustee of the Scheme and Principal Asset Management Company (Asia) Limited acting as the Investment Manager. The Scheme was created by a master trust deed on 31 January 2000 and was registered with the Mandatory Provident Fund Schemes Authority (the “MPFA”) on 31 January 2000. The registration with the MPFA does not imply official recommendation from the MPFA.

The Trustee collects contributions in accordance with the rules of the Scheme and invests in the Constituent Funds set out below. The Constituent Funds of the Scheme are managed by Principal Asset Management Company (Asia) Limited and administered by Principal Insurance Company (Hong Kong) Limited. Principal Asset Management Company (Asia) Limited is licensed in respect of Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance. Principal Insurance Company (Hong Kong) Limited is an insurer authorised by the Insurance Authority.

SCHEME PROVISIONS

Eligibility

There are three kinds of members of the Scheme:

(i) Employee Member

When employers decide to join the Scheme by setting up a plan for the benefits of employees, existing employees will become eligible to participate in the Scheme within 60 days from either the MPF commencement date or the date of employment, whichever is later. Future employees will become eligible to participate in the Scheme within 60 days from the date of employment.

(ii) Self-employed Person Member

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

(iii) Preserved Member

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

Mandatory Contributions

As required by law, employees and self-employed persons of 18 or more and below the age of 65 have to contribute to the Scheme at the rate of 5% of their relevant income as mandatory contributions. Also, employers have to contribute to the Scheme for those employees at the rate of 5% of the employee’s relevant income. Relevant income means any wages, salaries, leave pay, fees, commissions, bonuses, gratuities, perquisites or allowances, expressed in monetary terms, paid or payable by an employer to an employee in consideration of the employment contract. However, it does not include any housing allowance, or any severance or long service payments.

In the case that the relevant income of an employee is less than HK\$5,000 per month, he is not required to make mandatory contribution. The employer, however, must still pay his 5% mandatory contribution for that employee. This statutory minimum level of relevant income of HK\$5,000 per month is applicable to contribution periods commencing on or after 1 February 2003. Prior to that, the statutory minimum level of relevant income remains at HK\$4,000 per month.

If the relevant income of an employee is more than HK\$20,000 per month, the mandatory contributions for both the employer and employee are limited to HK\$1,000 each (i.e. 5% of HK\$20,000). Nevertheless, both the employer and employee may opt to make voluntary contributions.

Under the Principal MPF Scheme Series 600, all mandatory amounts contributed to the Scheme are immediately vested to the employee or self-employed person concerned. All contributions must only be made to the Trustee of the Scheme.

For existing and future employees who have completed 60 days of employment, the employer will begin contribution from either the MPF commencement date or the date of employment, whichever is later. In the case of employees whose wage period is not more than 1 month, they will begin contributing in respect of the relevant income earned from the wage period that commences after the 30th day of employment. In the case of employees whose wage period is more than 1 month, they will begin contributing in respect of the relevant income earned after the last day of the calendar month in which the 30th day of employment falls.

Voluntary Contributions

Employers, employees and self-employed persons may choose to contribute more than the mandatory amount(s) required. Such extra contributions will be treated as voluntary contributions, to which different Scheme Rules and vesting scales may apply.

Subject to the applicable vesting scale, members may withdraw their accrued benefits of the voluntary contributions upon termination of their employment.

Please also refer to the “Pro-rata Calculation of Qualifying Balance” section on page 10 for how the vesting scale should be applied if the member invests the voluntary contributions in the Principal Long Term Guaranteed Fund. Self-employed persons and preserved members may also withdraw accrued benefits attributable to their voluntary contributions, but the number of withdrawals in each financial year shall not exceed three.

Mode of Contribution

Employers and employees’ contributions must be paid according to the actual payroll period such as bi-weekly or monthly. Self-employed persons can elect to pay contributions either monthly or annually.

Normal Retirement Benefit

At the age of 65, members will be entitled to their accrued benefits under the Scheme.

Early Retirement Benefit

Members may opt for early retirement at the age of 60 and obtain their accrued benefits under the Scheme.

Late Retirement Benefit

Employees with the employer’s consent and self-employed persons may retire later than the age of 65. Contributions may or may not continue by or on behalf of the employees and self-employed persons. Contributions that continue to be made after the age of 65 will be regarded as voluntary contributions.

Permanent Total Incapacity or Death

In the event of ill health, which causes members to become disabled and leave their employment, or in the event of death, the accrued benefits will be paid out in full. The payment will be made in a lump sum. In the case of death, the payment will be made to the personal representative of the member.

Permanent Departure from Hong Kong

Members may elect to withdraw their accrued benefits under the Scheme if they are going to depart permanently from Hong Kong.

Small Claim

Members may elect to withdraw their accrued benefits under the Scheme when their respective accrued benefit is not more than HK\$5,000, provided there had been no mandatory contributions in the past 12 months as required by law, there are no other benefits in other MPF schemes and they are not expected to be employed or self-employed in the near future.

Resignation or Termination before Retirement Age

If an employee leaves the service of the employer before retirement age, or a self-employed person ceases to be self-employed for reasons other than death, total incapacity or permanent departure from Hong Kong or small claim, he can elect to have his accrued benefits transferred to an account in another MPF scheme (either the scheme of which his new employer is participating or the scheme nominated by the member himself) or the Preserved Account in the Principal MPF Scheme Series 600.

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

- (a) the employee is re-employed by a new owner (in the case of change of business ownership) or an associated company of the previous employer (in the case of intra-group transfer) ("new employer");
- (b) the new employer has assumed the liability of the previous employer for severance payment or long service payment in respect of that employee;
- (c) the new employer has agreed to recognize the employee's length of employment with the previous employer for the purposes of that severance payment or long service payment; and
- (d) no accrued benefits held in a registered scheme in respect of the employee have been paid to the employee or the previous employer for the purpose of severance payment or long service payment,

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

Payment or Transfer of Benefits

The interval between receipt of request from the member to the Trustee for payment or transfer of benefits and date of payment or transfer of benefits is 30 days under normal circumstances. In the case of termination of the plan by the employer, the transfer of benefits will normally be made within 30 days after the termination notice given by the new trustee is or deemed to be expired. However when an employer ceases contributions without notifying the Trustee, the Trustee may require such time as may be necessary to inform relevant government authorities and the benefits will be paid or transferred within 30 days after the Trustee receives confirmation from all relevant government authorities.

Reports and Member Accounts

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

Financial Year End

The financial year end of the Principal MPF Scheme Series 600 is 31 December.

Deferral or Suspension of Dealings

Dealing of Constituent Funds will take place on each dealing day, which shall be each day on which banks are open for normal banking business in Hong Kong, excluding Saturdays. However, having regard to the interests of the members, the Trustee may suspend or defer dealing of the units of any Constituent Funds in exceptional circumstances, which include:

- (a) a closure, restriction or suspension of trading on any securities market on which substantial part of the investments of any Constituent Funds is traded, or a breakdown of the means of the Trustee to ascertain the prices of investments;
- (b) in the opinion of the Trustee, the prices of investments of the Constituent Funds cannot be reasonably ascertained;
- (c) in the opinion of the Trustee, realisation of investments of the Constituent Funds becomes not reasonably practicable, or becomes prejudicial to the interests of the members;
- (d) remittance, repatriation of funds involved in the realisation of or in the payment for investments of the Constituent Funds, or subscription or redemption of any unit of the Constituent Funds is delayed, or cannot, in the opinion of the Trustee, be carried out promptly at normal rates of exchange.

The suspension shall then take effect until the Trustee declares the suspension at an end, or if none of above situations exists, until but including the day on which none of above situations exists.

In addition, our Internet website and Principal TeleTouch® telephone services mean you may access up-to-date information relating to the Scheme and your MPF account.

MPF/GOVERNMENT/OTHER REGULATIONS

Mandatory Provident Fund Schemes Ordinance

The Mandatory Provident Fund Schemes Authority, through enabling legislation, regulates MPF schemes. The Trustee has a duty to report to the Mandatory Provident Fund Schemes Authority of your participation in the Scheme.

The Principal MPF Scheme Series 600 is designed to comply with the Mandatory Provident Fund Schemes Ordinance (“MPFS Ordinance”). As such, the Principal MPF Scheme Series 600 is governed by the laws of Hong Kong, and any parties can enforce their rights through the courts of Hong Kong.

Long Service Payment and Severance Payment Compatibility

By participating in the Scheme, an employer can more readily comply with the provisions in Part VA or VB of the Employment Ordinance which provides that an employer is liable for Long Service and Severance Payments in certain circumstances. The employer may offset such payments out of the benefits derived from the contributions made by the employer (and, if the employer has assumed the Long Service or Severance Payment liability of the previous employer of the employee, the benefits derived from the contributions made by the previous employer) in respect of the employee in the Scheme. For example, if the amount of benefits derived from the employer’s contributions is HK\$80,000 and the long service payment is HK\$50,000, the employer can request the Trustee to pay HK\$50,000 from the benefits of employer’s contributions to the leaving employee.

Taxation

The Principal MPF Scheme Series 600, like all MPF schemes, provides a tax advantage to participating employers, employees and self-employed persons. The contributions made by an employer, up to 15% of an employee’s annual total compensation, can be considered as a business expense, thus saving profits tax on such contributions. The mandatory contributions made by an employee or self-employed person up to HK\$12,000 per year are income tax-deductible. Benefits from mandatory contributions are tax exempt. In addition, the accrued benefits of a deceased member in respect of both mandatory and voluntary contributions are not subject to estate duty.

On the other hand, like other pension schemes, assets of the Principal MPF Scheme Series 600 may be subject to certain taxes in the course of investment transactions. Stamp duty and exchange levy will be imposed upon investment transactions in Hong Kong and the levies will be paid out of the scheme assets. For investments outside Hong Kong, certain types of withholding tax may be levied by the country in which the transaction is effected and the levies will also be paid out of the scheme assets.

This section is prepared according to Principal Trust Company (Asia) Limited’s understanding of the tax implications for Hong Kong employers, employees and self-employed persons. We recommend those employers, employees or self-employed persons seek independent professional advice regarding their own particular tax circumstances.

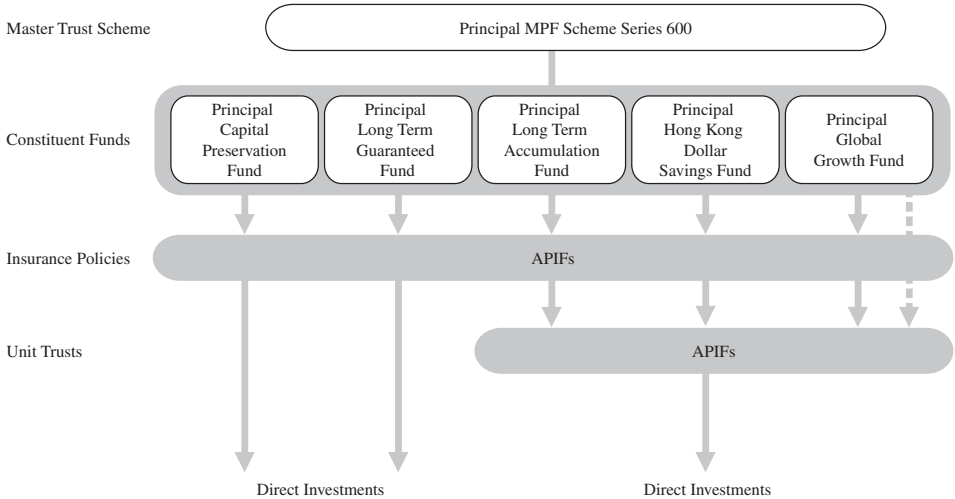
Authorisation by the Securities and Futures Commission

The Principal MPF Scheme Series 600 has been authorised by the Securities and Futures Commission. In giving this authorisation, the Commission has made no assessment of, nor does it take responsibility for, the financial soundness or the merits of the Principal Trust Company (Asia) Limited nor has it verified the accuracy or truthfulness of statements made or, opinions expressed in the documentation. Also, authorization does not imply official recommendation.

INVESTMENT OPTIONS — CONSTITUENT FUNDS

The Principal MPF Scheme Series 600 offers five Constituent Funds:

1. Principal Long Term Guaranteed Fund;
2. Principal Long Term Accumulation Fund;
3. Principal HK Dollar Savings Fund;
4. Principal Global Growth Fund;
5. Principal Capital Preservation Fund.



To invest in the Constituent Fund(s) of the Scheme, members may simply designate their choices at the time of their enrolment. Their contributions will automatically be credited to the particular fund(s) they have chosen according to the choice of fund(s) made and percentage allocated. They can switch their investment choices in the fund(s) at anytime thereafter without limitation at no extra charge. The member can notify the Trustee of his new investment choice by simply submitting a form designated by the Trustee or by electronic means through our Principal Teletouch® service and Principal Retirement Service Centre on Internet.

Principal Long Term Guaranteed Fund

General

Units of the Principal Long Term Guaranteed Fund are divided into the following three (3) classes:

- (i) 4.0% guarantee class;
- (ii) 5.0% guarantee class; and
- (iii) 1.0% guarantee class.

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

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

For the 4.0% (or 5%) guarantee class of units, in respect of contributions made on or before 30 September 2004, interest will be credited to the qualifying balance of the member at the rate of 4% per annum (or 5% per annum, as the case may be); and in respect of contributions made after 30 September 2004, interest will be credited to the qualifying balance at the “new applicable rate” (as described in the “**New Applicable Rate**” section on page 9 below). However, if the member effects a redemption, switching out or withdrawal of the units of the fund after 30 September 2004 other than the occurrence of a qualifying event (as described in the “**Provision of Guarantee**” section on page 7 below), the remaining qualifying balance (regardless of whether it includes contributions made on or before 30 September 2004) will only be credited with interest at the “new applicable rate”. For the avoidance of doubt, no interest will be credited if the remaining qualifying balance is not greater than zero.

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

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

The guarantee will be offered to the member when all his accrued benefits are withdrawn upon the occurrence of a qualifying event. Please refer to the section “Guarantee Mechanism” on page 9 for details.

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

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

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

Provision of Guarantee

Contributions made by or on behalf of a member for the subscription of a particular guarantee class of units will receive a guarantee of capital as well as a prescribed guarantee rate of return over the entire period his or her contributions are invested in the fund in the manner described below². The guarantee is offered by the insurer of the underlying APIF (i.e. the Guarantor), which is an insurance policy. For details, please refer to the “**Guarantee Mechanism**” section on page 9. The guarantee of capital and return will only be offered if the contributions in the fund are withdrawn upon the occurrence of a “qualifying event”, which is the **receipt by the Trustee of a valid claim of all the accrued benefits** of the member upon satisfying any of the following conditions:

- (a) Attainment of the normal retirement age or retirement at or after the early retirement age but before the normal retirement age;
- (b) Total incapacity;
- (c) Death;
- (d) Permanent departure from Hong Kong;
- (e) Claim of “small balance”.

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

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

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 of termination) and the continuous period for which the member has been investing in the fund up to and including the last date of his employment (“qualifying period”) is at least 36 complete months. The qualifying period in respect of a member may also be re-set to zero if the member (or his personal representative) effects a redemption, switching out or withdrawal of the units of the fund other than upon the occurrence of a qualifying event. For details, please refer to the paragraphs below. For the avoidance of doubt, condition (f) does not apply to self-employed persons or preserved account holders.

For this purpose, a “valid claim” means a claim of all the accrued benefits submitted by the member (or his personal representative) pursuant to, and with all the necessary supporting documentation as prescribed by, the applicable regulations and the rules of the Scheme. Such claim must cover all accrued benefits of the member and must be received by the Trustee. Unless otherwise stated below, the guarantee will not be applicable if the “valid claim” does not cover all accrued benefits or the “valid claim” is not received by the Trustee. For the avoidance of doubt, in case a member invests in the underlying APIF (through his participation in this 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.

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

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 Scheme and to make an election pursuant to section 146 of the MPF Schemes (General) Regulation, then, his actual amount of accrued benefits (with the application of the guarantee) will be transferred to his preserved account under the Scheme pursuant to the applicable regulations and the Scheme rules. After the transfer, the guarantee at the “new applicable rate” 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 accounts, the member will be entitled to the guarantee under the new applicable rate in respect of the balance in his preserved account.

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 Scheme and to make an election pursuant to section 146 of the MPF Schemes (General) Regulation, then, his accrued benefits (with the application of the guarantee) will be transferred to the preserved accounts under the Scheme pursuant to the applicable regulations and the Scheme rules. 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 accounts in respect of the balances so credited. When the member finally claims all of the benefits upon the occurrence of the qualifying events 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 any of the conditions in (a) to (f) occurs but accrued benefits of a member are transferred to the preserved accounts as a result of his failure of filing a valid claim of his accrued benefits prior to the transfer, then, unless otherwise provided in the paragraphs above relating to conditions (a), (c) and (f), (i) no guarantee will apply at the time when the accrued benefits are transferred to the preserved accounts; (ii) any guarantee entitlements in respect of the member prior to the transfer will be forfeited; and (iii) the “new applicable rate” (as described below) will be applicable to the preserved accounts 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.

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

Guarantee Mechanism

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

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

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

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

Members should also note that in crediting interest to the qualifying balance(s) of the members, the following will apply: in respect of a contribution made to the fund by or in respect of a member, interest shall be accrued to the relevant qualifying balance in respect of such contribution from (and including) the dealing day on which it is invested in the fund up to (and excluding) the dealing day on which the relevant units are redeemed by the member (or his personal representative) upon the occurrence of a qualifying event. However, if there is a redemption, switching out or withdrawal by the member from the fund other than the occurrence of a qualifying event, interest shall be accrued to the adjusted qualifying balance (provided that it is greater than zero) from (and including) the dealing day on which such adjustment is made up to (and excluding) the dealing day on which the relevant units are redeemed by the member (or his personal representative) upon the occurrence of a qualifying event. (Please refer to page 4 for the meaning of “dealing day”.)

New Applicable Rate

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

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

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

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

Pro-rata Calculation of Qualifying Balance

Upon the occurrence of a qualifying event, if the qualifying balance (regardless whether it is related to 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 in the Appendix.

Investment Policy

This type of guarantee is called a **Long Term Guarantee**, which adopts a longer term investment philosophy. The Guarantor of the capital and the guaranteed rate of return for the fund is Principal Insurance Company (Hong Kong) Limited, the provider of the underlying insurance policy which is an APIF. The objective of this fund is to provide a competitive long-term total rate of return, while also providing a minimum guaranteed average annual return over the career of the members.

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

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

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

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

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

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

The fund will maintain at least 30% in Hong Kong dollar currency investments, as measured by the “effective currency exposure” as defined in the Mandatory Provident Fund Schemes (General) Regulation, Schedule 1, Part III.

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

The return is expected to be similar to the benchmark of this fund which is the Watson Wyatt’s Measurement of Investment Performance Survey for Hong Kong retirement schemes.

Reserve

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

Termination of the Underlying APIF by the Guarantor

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

Principal Long Term Accumulation Fund

The objective of this fund is to earn a competitive long-term total rate of return through investing in a balanced portfolio. This fund will invest in an investment fund under an insurance policy. The investment fund is also an APIF. The investment fund will in turn invest in another APIF which has a balanced investment philosophy and consists of a portfolio of fixed income and equity securities denominated in the world’s major currencies. As the fund takes exposure to various currencies at any given time, investors in this fund share the foreign exchange gains and losses associated with funds owning these currencies. Because the fund indirectly owns fixed income securities, investors in the fund will experience gains and losses on these securities as interest rates fluctuate. The risk profile of the fund is generally regarded as moderate to high. The fund is denominated in Hong Kong dollars.

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

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

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

<u>Asset Allocation*</u>	<u>Range</u>
Equity Securities	20 - 80%
Fixed Income Securities	15 - 75%
Cash & Short-term Investments (e.g. bills and deposits)	0 - 20%
<u>Geographic Allocation*</u>	<u>Range</u>
United States	15 - 100%
Asia	0 - 85%
Europe	0 - 30%
Others	0 - 20%

The fund will maintain at least 30% in Hong Kong dollar currency investments, as measured by the “effective currency exposure” as defined in the Mandatory Provident Fund Schemes (General) Regulation, Schedule 1, Part III.

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

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

Principal HK Dollar Savings Fund

The objective of this fund is to earn a competitive short to medium term rate of return. This will be accomplished by investing in an investment fund under an insurance policy. The investment fund is also an APIF. The investment fund will in turn invest mainly in an APIF which consists primarily of a portfolio of high quality Hong Kong dollar short to medium duration debt securities. The investment fund will also invest in another APIF which mainly composes of US dollar short-to-medium duration debt securities. Through the underlying APIFs, the fund will hold assets denominated in Hong Kong dollars and may also hold assets denominated in US dollars or other currencies. The risk profile of the fund is generally regarded as low. The fund is denominated in Hong Kong dollars.

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

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

<u>Asset Allocation*</u>	<u>Range</u>
Short-to-medium duration Debt Securities	60 - 100%
Cash & Short-term Investments (e.g. bills and deposits)	0 - 40%
<u>Geographic Allocation*</u>	<u>Range</u>
Hong Kong	70 - 100%
United States	0 - 30%
Europe	0 - 30%
Others	0 - 20%

The fund will maintain at least 30% in Hong Kong dollar currency investments, as measured by the “effective currency exposure” as defined in the Mandatory Provident Fund Schemes (General) Regulation, Schedule 1, Part III.

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

Principal Global Growth Fund

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

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

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

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

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

The fund will maintain at least 30% in Hong Kong dollar currency investments, as measured by the “effective currency exposure” as defined in the Mandatory Provident Fund Schemes (General) Regulation, Schedule 1, Part III.

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

Principal Capital Preservation Fund

This is the required constituent fund as specified in the Mandatory Provident Fund Schemes (General) Regulation, Section 37. The investment and operation of this fund will comply with all provisions stated in this regulation.

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

The fund will invest in an investment fund under an insurance policy. The investment fund is also an APIF. The investment fund will consist of a portfolio of bank deposits, short duration securities and high quality money market instruments denominated in Hong Kong dollars. The fund’s exposure to capital gains and losses associated with interest rate fluctuations is mitigated because the fund will indirectly invest mainly in a variety of relatively short duration securities and bank deposits. The risk profile of the fund is generally regarded as low. The fund is denominated in Hong Kong dollars.

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

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

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

<u>Geographic Allocation*</u>	<u>Range</u>
Hong Kong	100%

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

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

How the mechanism of the Capital Preservation Fund works

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

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

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

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

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

* 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 debt investments is classified by their currency denomination.

PRICING AND VALUATION

Unitisation

The initial unit value for each unit of Constituent Fund is HK\$10. The unit value after the date of issue will be the unit value of the Constituent Fund(s) on the next Valuation Date. Contributions, as specified by the member, will be allocated to purchase units of the particular Constituent Fund on the first Valuation Date after the Trustee receives the contributions.

Valuation Date

Valuation Date means the date on which the Investment Manager values the Constituent Fund(s). Unless the Trustee determines otherwise, valuation will occur on each day on which banks in Hong Kong are open for normal banking business, excluding Saturdays, or such other day or days as the Trustee may determine from time to time, either generally or in relation to a particular Constituent Fund.

Valuation

On any Valuation Date, the unit value for each Constituent Fund will equal the net asset value of the Constituent Fund, divided by the number of units outstanding, before taking into consideration any contributions, transfers, and/or withdrawals made on such date. Liabilities of each Fund include but are not limited to custodial fees, investment transaction fees, transfer taxes and other taxes imposed by the country of origin and such other fees and charges as may be incurred in the course of managing or administering the Constituent Fund. If there should be no readily ascertainable prices for any of the assets of the Constituent Fund(s), the value of such assets will be determined by the Investment Manager using generally accepted accounting practices and applicable law.

Investment involves risk, the value of the funds may go up or down.

RESTRICTIONS

All Constituent Funds are subject to the investment and borrowing restrictions in Schedule 1 of the Mandatory Provident Fund Schemes (General) Regulation, and all Constituent Funds will not be engaged in security lending.

In case of restructuring of the Principal MPF Scheme Series 600, or merger, division or termination of Constituent Fund(s), the Trustee will notify the Scheme participants of the change 3 months (or shorter period as agreed by the Securities and Futures Commission) prior to the change taking effect.

In case of change in the method of pricing and/or valuation of the Constituent Fund(s), the Trustee shall give Scheme participants a 3-month notice (or shorter period of notice as agreed by the Securities and Futures Commission) prior to the change taking effect.

PARTICIPATING IN THE PRINCIPAL MPF SCHEME SERIES 600

To participate in the Principal MPF Scheme Series 600, you are required to complete and return the Application Form to our appointed sales representative or directly to the head office of the Trustee.

Please note that a legal document in the form of a Participation Agreement/Application Form must be executed by the employer, self-employed person or preserved member, unless otherwise provided for under the Mandatory Provident Fund Schemes (General) Regulation.

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 600. Important explanatory notes and definitions are set out at the bottom of the table.

(A) JOINING FEE & ANNUAL FEE				
Types of fees	Current amount (% of contribution amount)		Payable by	
	Direct Charge Option ^(a)	Indirect Charge Option ^(a)		
Joining fee¹	N/A	N/A	N/A	
Annual fee^{2, (b)}	First \$250,000, Up to 3.5% Next \$250,000, Up to 3.0% Next \$500,000, Up to 2.5% Excess, Up to 2.0% >=\$1,000,000 Negotiable	Nil	Employer and Self-Employed Person (By separated billing, Not directly deducted from member's contribution)	
(B) FEES AND CHARGES PAYABLE ARISING FROM TRANSACTIONS IN INDIVIDUAL MEMBER'S ACCOUNT				
Types of fees & charges	Name of constituent fund	Current level		Payable by
		Direct Charge Option ^(a)	Indirect Charge Option ^(a)	
Contribution charge³	All constituent funds	N/A	N/A	N/A
Offer spread⁴ (% of unit NAV)	Principal Capital Preservation Fund	N/A	N/A	N/A
	All other constituent funds	Nil	Nil	Scheme Member and Self-Employed Person
Bid spread^{5, (c)} (% of unit NAV)	Principal Capital Preservation Fund	N/A	N/A	N/A
	All other constituent funds	Nil	Nil	Scheme Member and Self-Employed Person
Withdrawal charge⁶	All constituent funds	N/A	N/A	N/A

(C) ANNUAL FUND OPERATING CHARGES & EXPENSES OF CONSTITUENT FUNDS^(d)				
Types of charges & expenses	Name of constituent fund	Current level (% p.a. of NAV)		Deducted from
		Direct Charge Option^(a)	Indirect Charge Option^(a)	
Management fees⁷	Principal Capital Preservation Fund ^(e)	1.25%	Up to 1.50%	Relevant constituent fund assets, AND Relevant member's account by unit deduction (maximum of 0.50% will be from unit deduction)
	Principal Long Term Guaranteed Fund ^(f)	1.50%	Up to 2.00%	
	All other constituent funds	1.25%	Up to 1.75%	
Guarantee charge⁸	Principal Long Term Guaranteed Fund	N/A		N/A
Other expenses^(g) (Expenses are deducted from Funds' Assets)	0.03% per annum of NAV compensation fund levy, custodian fees, valuation fees, auditor's fees, legal fees, trustee's indemnity insurance, cost incurred in regulatory approval and the maintenance of the Scheme, the costs of preparation, distribution of the Principal Brochure and annual registration fee payable to the MPFA			
(D) FEES AND CHARGES PAYABLE OUT OF THE UNDERLYING FUNDS				
Types of fees & charges	Name of constituent fund	Current level (% p.a. of NAV)		Deducted from
		Direct Charge Option^(a)	Indirect Charge Option^(a)	
Management fees⁷	All constituent funds	Nil		Relevant underlying fund assets
Guarantee charge⁸	Principal Long Term Guaranteed Fund	Up to 1.00%		Relevant underlying fund assets
Other expenses^(g) (Expenses are deducted from Funds' Assets)	Including the costs incurred in the establishment, structuring, management and administration, the costs of investing and realizing the investments, custodian fees, the fees and expenses of auditors, valuation costs, legal fees, the costs incurred in connection with any listing or regulatory approval and preparation and printing of any explanatory memorandum, any audited accounts or interim reports which are sent to the Unitholders, the costs of holding meetings of Unitholders and the costs incurred in effecting and maintaining insurance required by the MPF Ordinance.			

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.
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.
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.
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, custodian, administrator, investment manager (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 “Guaranteed charge” is given the name of “Reserve charge” in the Trust Deed.

EXPLANATORY NOTES

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

- (a) There are two charge options available. The charge option used will be specified in the Application Form. This will be either the Indirect Charge Option or the Direct Charge Option. The two charge options will have different rates of guarantee in the Principal Long Term Guaranteed Fund, as well as different rates of annual fee and management fee.

Both employer and employee fees will apply to self-employed individuals who will be subject to Indirect Charge Option only. Preserved account members will be subject to Indirect Charge Option and only those fees indicated in the fee table that are payable by the employee will apply.

Indirect Charge Option Management fee — The difference between the indirect and direct charge option management fee will be deducted in the form of units.

The direct charge option will not be available for new participating employers and their employees who join the Scheme on or after 1 October 2004.

- (b) The annual fee is only negotiable if at the time of joining the Scheme the employer informs the Trustee that the annual contribution is equal to or greater than 1 million. In the absence of such an indication or commitment, the fee scale will be applicable. Further, additional discount may apply to cases of \geq \$10 million transfer assets.
- (c) A bid spread of up to 5%, as determined by the Trustee at its discretion may be deducted from the unit value of the constituent fund on redemption of the units from the applicable constituent fund(s). Currently the spread is waived by the Trustee.
- (d) There will be no advertising expenses charged to assets of the Constituent Funds.
- (e) **Principal Capital Preservation Fund** — If the amount of the income and profits derived from the investments of the Principal Capital Preservation Fund prior to the deduction of management fee for a particular month exceeds the amount of interest that would be earned if the fund had been placed on deposits in a Hong Kong dollar savings account at the “prescribed savings rate”, an amount of fee not exceeding the excess may be deducted from the accrued benefits of the member.

However, if for a particular month no amount is deducted, or the amount deducted is less than the management fee and administrative expenses, the deficit may be deducted from the amount of any excess that may remain in respect of any of the following 12 months after deducting the management fee and administrative expenses of that month.

- (f) **Principal Long Term Guaranteed Fund** — Employers and self-employed persons who join the Scheme prior to 1 October 2004 may choose either the Indirect Charge Option or the Direct Charge Option and specify it in the Application Forms. If an employer chooses the Indirect Charge Option, the 4% guarantee

class of units will be applicable to their employees who invest in the fund prior to 1 October 2004 and will continue to apply to such employees after 1 October 2004 only if they hold units of such class on 30 September 2004. If an employer chooses the Direct Charge Option, the 5% guarantee class of units will be applicable to their employees who invest in the fund prior to 1 October 2004 and will continue to apply to such employees after 1 October 2004 only if they hold units of such class on 30 September 2004. However, if the employees do not hold units of the 4% or 5% guarantee class of units on 30 September 2004, they may only invest in the 1% guarantee class of units after 30 September 2004. Once a charge option is chosen by an employer, it will apply to all of its employees including those who may only invest in the 1% guarantee class of units. For employer and self-employed persons who join the Scheme on or after 1 October 2004, the Direct Charge Option will not be available and only the Indirect Charge Option will apply.

(g) Other Expenses Fees and Charges

Pursuant to section 17(3) of the MPFS Ordinance, the MPFA is entitled to impose a compensation fund levy out of the contributions of an MPF scheme. Currently, the rate of the levy is 0.03% per annum of the net asset value of the scheme assets and the Trustee will deduct that amount from the assets of the Scheme.

Subject to the provisions above in relation to the Principal Capital Preservation Fund, each of the Constituent Funds is to bear the costs set out in the Master Trust Deed of the Scheme that are directly attributable to the respective Constituent Fund in proportion to its net asset value, including but not limited to custodians fees, valuation fees, auditor's fees, legal fees, trustee's indemnity insurance, costs incurred in regulatory approval and the maintenance of the Scheme and the costs of preparation, distribution of the Principal Brochure. In addition, under section 22B of the MPFS Ordinance, there will be an annual registration fee payable to the MPFA, the amount of which is to be announced. This registration fee will also be deducted from the respective Constituent Funds in proportion to their net asset values, subject to the provisions in relation to the Principal Capital Preservation Fund. The Trustee has the discretion to waive part or all of the foregoing expenses, fees and charges.

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

The establishment cost borne by the Constituent Funds has been fully amortized.

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 Principal Brochure with effect from 30 June 2006 onwards. An illustrative example for the Capital Preservation Fund is currently available for distribution with this Principal Brochure. 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.

SERVICES

- FREE Principal MPF Contribution Calculation Software to ease MPF compliance
- Principal TeleTouch® (2827 1233) for checking account balances and switching investment choices as frequent as you wish. Members may, after entering their member number and PIN number, check account balances and/or switch investment choices in accordance with the instructions provided under the system. Switching will be processed within 2 working days. Valuation is based on the unit price on the day of switching. The above services are provided free of charge.
- Enrollment meetings for members
- Online information and active account management from Principal Website <http://www.principal.com.hk>

MISCELLANEOUS

Rebates

Neither Principal Trust Company (Asia) Limited/Principal Insurance Company (Hong Kong) Limited/Principal Asset Management Company (Asia) Limited nor any of its connected persons may retain cash or other rebates from a broker or dealer in consideration of directing transactions in the investments of the Constituent Fund(s) to the broker or dealer, save that goods and services ("soft dollars") may be retained within the limitations set out by the Securities and Futures Commission. Those permissible goods and services must be, among other things, of demonstrable benefit to the investors and consistent with best execution standards. They may include research and advisory services, portfolio analysis, data and quotation services etc. but may not include, among other things, travel, accommodation, entertainment or direct money payments.

Transferring from an existing MPF scheme

It is easy to change the providers of your current MPF plan and the investment of the assets to our Principal MPF Scheme Series 600. Inform our appointed sales representative about your prior plan and we will work with you, your existing administrator and investment manager to arrange for a transfer.

In the unlikely event that after joining the Principal MPF Scheme Series 600, you wish to transfer your plan to another MPF master trust scheme, inform the trustee of your new scheme, who will inform the Trustee and arrange for a transfer. You may also approach our appointed sales representative and our administrators for assistance in the process.

Termination of your Participation in the Scheme

Although we hope to have you as a customer for many years, we do recognise that things can change. You are able to terminate your plan by giving written notice to the Trustee in accordance with the Mandatory Provident Fund Schemes (General) Regulation. Termination of the plan may be subject to a bid spread charge and details of which have already been contained in the table under "Fees and Charges". Please also note that termination of your plan may affect the guaranteed entitlement under the Principal Long Term Guaranteed Fund. For details, please refer to the section "Provision of Guarantee" on page 7 above.

Our Responsibility

This Principal Brochure is published by Principal Trust Company (Asia) Limited on 31 December 2005. Principal Trust Company (Asia) Limited accepts responsibility for the accuracy of the information contained in this brochure at the time of its issue subject to the reservations or qualifications expressed herein. As this is meant to be a brief description of the terms and conditions of the Scheme, please see the actual Master Trust document and your particular proposal for further and complete information. Should there be any changes of the investment policy, Principal Trust Company (Asia) Limited will notify the Scheme participants 3 months (or shorter period as agreed by the Securities and Futures Commission) in advance.

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

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

Principal TeleTouch[®]

Our Principal TeleTouch[®] provides customer hotlines services to the members. Member may call 2827 1233.

Internet Website

Information about Principal and the Mandatory Provident Fund can be found on our Internet websites:

<http://www.principal.com.hk>

Service Providers

Trustee

Principal Trust Company (Asia) Limited

Unit 1001-1003, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong

Custodian

Citibank, N.A.

50/F, Citibank Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong

Investment Manager

Principal Asset Management Company (Asia) Limited

Unit 1001-1003, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong

Administrator

Principal Insurance Company (Hong Kong) Limited

Unit 1001-1003, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong

Scheme Auditor

KPMG

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

The Constitutive Documents of the Principal MPF Scheme Series 600 (including the Master Trust Deed and Rules of the Scheme) and the policy document of the underlying APIF (including any Endorsements thereto) in which the Principal Long Term Guaranteed Fund invests can be inspected free of charge at the Trustee's premises during normal office hours.

Appendix — Illustrations of the guarantee features of the Principal Long Term Guaranteed Fund

Introductory Notes:

A. Illustration of the Guarantee Mechanism

Warnings:

1. The illustrations in this section are subject to the detailed descriptions in the preceding part of this 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 \$5,000 is contributed at the beginning of each year in the Principal Long Term Guaranteed Fund. For each member participating in this fund, we will maintain a normal account balance (“NB”) and a qualifying account balance (“QB”). The QB is merely an accounting record and any amount credited (or debited) to the QB means that such an amount is recorded as a credit (or debit) to the QB. For the purpose of the fund, QB indicates the guaranteed amount offered to the member under the fund upon the occurrence of a qualifying event.
4. The NB is the net asset value of the relevant units of the fund (before deduction of any bid spread), and may go down as well as up. In other words, the NB will reflect the actual performance of the units held by the member. For illustration purposes, it is assumed that no bid spread will be charged.
5. For the 4% or 5% guaranteed class of units, the QB is determined based on an annually compounded rate of return of (i) 4% or 5%, where applicable, for contributions made on or before 30 September 2004 and (ii) 1% for contributions made after 30 September 2004. For the 1% guarantee class of units, the QB is determined based on an annually compounded rate of return of 1% for all contributions made. For the purpose of illustrations, it is assumed that units invested belong to the 5% guaranteed class.
6. In the illustrations, QB 1 is the QB for contributions made on or before 30 September 2004, and QB 2 is the QB for contributions made after 30 September 2004. For the sake of simplicity, it is assumed that there are only employer’s and employee’s mandatory contributions (except in 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 on which the actual redemption takes place.
9. In the illustration, “qualifying period” means the period for which the member has invested in the fund and during which no withdrawal has ever been made.
10. If a scheme member wishes to effect a redemption, switching out or withdrawal of the units of the fund other than occurrence of a qualifying event, such transaction will be effected as if all units of the fund will be redeemed and the units which are not requested to be redeemed, switched out or withdrawn, if any, will be re-invested in the fund. In such circumstances, the following will apply:
 - (i) the NB in respect of the withdrawn units (less any applicable bid spread) will be paid;
 - (ii) the qualifying period will be reset to zero and re-commence from the date on which the QB is adjusted (as stated in (iii) below) provided that if at such time there is no longer any contribution remained in the fund, the qualifying period will only re-commence on the date on which new contribution is made to the fund;
 - (iii) the QB of the re-invested units will be adjusted based on the amount of NB and QB at the time immediately prior to such withdrawal:
 - (a) if QB is less than or equal to NB, the QB will be reduced by the amount by which the NB has decreased as a result of the redemption, switching out or withdrawal (and may become negative if the amount redeemed, switched out or withdrawn is greater than the QB);
 - (b) if QB is greater than NB, the QB will be reset to an amount equal to the NB (after the redemption, switching out or withdrawal); and
 - (iv) the adjusted QB (together with any future contributions credited thereto) will be credited with interests at an annually compounded rate of return of 1% after the withdrawal (provided the balance is positive).
11. For the avoidance of doubt, paragraphs 10 (i) to (iv) will also be applicable in case where units of the fund are fully withdrawn other than the occurrence of a qualifying event.
12. Members should note that the QB of a scheme member will be determined independent of any of his former employment (other than in the case of “intra-group transfer” as set out on page 8).

Scenario 1:

Assumptions:

- (a) A member first invested in the fund on 1 January 2002 and therefore the guaranteed rate of return of 5% applies to his contributions made on or before 30 September 2004 and 1% applies to any of his contributions made after 30 September 2004.
- (b) No redemption, switching or withdrawal has been made.

Illustrations:

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

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

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

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

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

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

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

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

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

Therefore, \$10,762.50 will be paid.

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

Since the qualifying period is less than 36 months, there is no qualifying event. The NB (for End of Year 2003) at the sum of \$10,251.00 will be transferred to preserved account/new trustee.

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

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

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

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

Therefore, \$23,137.24 will be transferred to preserved account/new trustee.

Scenario 2:

Assumptions:

- (a) A member first invested in the fund on 1 January 2005 and therefore the guaranteed rate of return of 1% applies to all his contributions.
- (b) No redemption, switching or withdrawal has been made.

Illustrations:

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

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

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

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

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

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

$$NB = \$5,000.00$$

Therefore, \$5,050.00 will be paid.

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

Since the qualifying period is less than 36 months, there is no qualifying event. The NB (for End of Year 2006) at the sum of \$9,700.00 will be transferred to preserved account/new trustee.

Scenario 3:

Assumptions:

- A member first invested in the fund on 1 January 2002 and therefore the guaranteed rate of return of 5% applies to his contributions made on or before 30 September 2004 and 1% applies to any of his contributions made after 30 September 2004.
- Partial withdrawal is effected with the QB less than the NB (QB < NB) at the time of withdrawal and the withdrawal amount is less than the total QB.

Illustrations:

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

This illustrates the position after a withdrawal.

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

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

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

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

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

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

$$\begin{aligned} \text{Total QB after withdrawal} &= \$22,428.16 - \$10,000 \\ &= \$12,428.16 \end{aligned}$$

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 member first invested in the fund on 1 January 2002 and therefore the guaranteed rate of return of 5% applies to his contributions made on or before 30 September 2004 and 1% applies to any of his contributions made after 30 September 2004.
- Partial withdrawal is effected with the QB less than the NB (QB < NB) at the time of withdrawal and the withdrawal amount is greater than the total QB.
- No contribution is made in 2006 and contribution only resumes in 2007.

Illustrations:

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

These illustrate the position after a withdrawal.

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

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

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

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

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

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

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

Total QB after withdrawal = $\$22,428.16 - \$23,000$
 = $-\$571.84$ (A negative QB does not mean that the member owes Principal money, rather it simply denotes that benefit exceeding the guaranteed amount has already been paid out.)

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

Illustrative Example 8: As of 31 December 2007, member’s employment is terminated. The qualifying period has been reset to zero as of 31 December 2005. The NB (for End of Year 2005) after withdrawal was \$137.24 but there was no contribution in 2006. New contribution of \$5,000 was made at the beginning of 2007. The qualifying period as of 31 December 2007 is 24 months. Member then makes a claim for his accrued benefits. Actual redemption takes place on the first day of the following year and the NB for that day is the same as the NB for the previous day. Since the qualifying period is less than 36 months, there is no qualifying event. NB (for End of Year 2007) at the sum of HK\$5,632.85 will be transferred to preserved account/new trustee.

Scenario 5:

Assumptions:

- A member first invested in the fund on 1 January 2002 and therefore the guaranteed rate of return of 5% applies to his contributions made on or before 30 September 2004 and 1% applies to any of his contributions made after 30 September 2004.
- Partial withdrawal is effected with the QB greater than the NB ($QB > NB$) at the time of withdrawal.

Illustrations:

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

This illustrates the position after a withdrawal.

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

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

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

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

$$\begin{aligned} \text{NB (for End of Year 2005) after withdrawal} &= \$22,158.13 - \$22,000 \\ &= \$158.13 \end{aligned}$$

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

$$\begin{aligned} \text{Total QB after withdrawal} &= \text{NB after withdrawal} \\ &= \$158.13 \end{aligned}$$

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 member first invested in the fund on 1 January 2002 and therefore the guaranteed rate of return of 5% applies to his contributions made on or before 30 September 2004 and 1% applies to any of his contributions made after 30 September 2004.
- Full withdrawal is effected with the QB less than the NB (QB < NB) at the time of withdrawal.
- No contribution is made in 2006 and contribution only resumes in 2007.

Illustrations:

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

These illustrate the position after a withdrawal.

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

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

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

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

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

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

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

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

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

New guaranteed rate of 1% per annum will be applied to the total QB and any new contributions after the withdrawal. Qualifying period will be reset to zero and the counting of the qualifying period shall only recommence when new contributions are made so that NB is greater than zero. During the Year 2006, no new contribution is received and the total QB remains at $-\$709.08$ (i.e. the total QB (for End of Year 2005) and the total QB (for End of Year 2006) are the same). No interest is accrued to the QB during the Year 2006 as the total QB is negative. As of beginning of Year 2007, new contributions of \$5,000 have been made. The total QB becomes positive at the beginning of Year 2007 and interest is accrued to the QB for the Year 2007.

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

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

Scenario 7:

Assumptions:

- A member first invested in the fund on 1 January 2002 and therefore the guaranteed rate of return of 5% applies to his contributions made on or before 30 September 2004 and 1% applies to any of his contributions made after 30 September 2004.
- Full withdrawal is effected with the QB greater than the NB (QB > NB) at the time of withdrawal.

Illustrations:

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

This illustrates the position after a withdrawal.

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

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

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

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

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

$$\begin{aligned} \text{NB (for End of Year 2005) after withdrawal} &= \$22,158.13 - \$22,158.13 \\ &= \$0 \text{ (since it is a full withdrawal)} \end{aligned}$$

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

$$\begin{aligned} \text{Total QB after withdrawal} &= \text{NB after withdrawal} \\ &= \$0 \end{aligned}$$

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 member first invested in the fund on 1 January 2002 and therefore the guaranteed rate of return of 5% applies to his contributions made on or before 30 September 2004 and 1% applies to any of his contributions made after 30 September 2004.
- No redemption, switching or withdrawal has been made.

Illustrations:

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

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

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

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

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

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

Illustrative Example 13: As of 31 December 2003, member departs 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 balance of the total QB representing the unvested portion will be paid to employer. In this example, this means the pro-rata value of the total QB (for End of Year 2003) in respect of the employer's voluntary contributions will be determined based on the NBs (for End of Year 2003) of the employer's and member's voluntary contributions.

NB of member's voluntary contributions	=	\$2,550.00 (\$2,500 x (1 + 2%))
NB of employer's voluntary contributions	=	\$5,125.50 (\$2,500 x (1 + 1%) x (1 + 2%) + \$2,500 x (1 + 2%))
Total QB of member's voluntary contributions	=	\$2,659.88 (\$8,006.25 x (\$2,550.00/\$7,675.50))
		(where \$7,675.50 is the sum of \$2,550 and \$5,125.50)
Total QB of employer's voluntary contributions	=	\$5,346.37 (\$8,006.25 x (\$5,125.50/\$7,675.50))

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

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

Scenario 9:

Employer makes a claim for Severance Payment

Assumptions:

- A member first invested in the fund on 1 January 2002 and therefore the guaranteed rate of return of 5% applies to his contributions made on or before 30 September 2004 and 1% applies to any of his contributions made after 30 September 2004.
- Out of the annual contribution of \$5,000, \$2,500 is contributed by the employer and \$2,500 is contributed by the employee. All contributions are fully vested in the employee.
- No redemption, switching or withdrawal has been made.
- Member's employment is terminated at End of Year 2005. Employer makes a claim for severance payment paid.

Illustrations:

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

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

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

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

$$\begin{aligned} \text{QB1} + \text{QB2} &= \$22,428.16 \\ &= (\$5,000 \times 1.05 \times 1.05 \times 1.05 \times 1.05 \times 1.05 + \$5,000 \times 1.05 \times 1.05 \times 1.05 \times 1.05 + \$5,000 \times 1.05 \times 1.05 + \$5,000 \times 1.01) \end{aligned}$$

$$\begin{aligned} \text{NB} &= \$21,839.83 \\ &= (\$5,000 \times 1.01 \times 1.02 \times 1.09 \times 1.01 + \$5,000 \times 1.02 \times 1.09 \times 1.01 + \$5,000 \times 1.09 \times 1.01 + \$5,000 \times 1.01) \end{aligned}$$

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

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

$$\text{NB of member's contributions} = \$10,919.92 (\$2,500 \times 1.01 \times 1.02 \times 1.09 \times 1.01 + \$2,500 \times 1.02 \times 1.09 \times 1.01 + \$2,500 \times 1.09 \times 1.01 + \$2,500 \times 1.01)$$

$$\text{NB of employer's contributions} = \$10,919.92 (\$2,500 \times 1.01 \times 1.02 \times 1.09 \times 1.01 + \$2,500 \times 1.02 \times 1.09 \times 1.01 + \$2,500 \times 1.09 \times 1.01 + \$2,500 \times 1.01)$$

$$\text{Total QB of member's contributions} = \$11,214.08 (\$22,428.16 \times (10,919.92/21,839.83))$$

$$\text{Total QB of employer's contributions} = \$11,214.08 (\$22,428.16 \times (10,919.92/21,839.83))$$

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