Annual Report and Audited Financial Statements

PRINCIPAL MPF - SIMPLE PLAN

31 December 2023





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DIRECTORY OF PARTIES

Trustee and Custodian

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

Sponsor

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

Administrator

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

Investment Manager of all Constituent Funds

Principal Asset Management Company (Asia) Limited 29/F, Sun Hung Kai Centre 30 Harbour Road Wanchai Hong Kong

Legal Advisor

Baker & McKenzie 14/F, One Taikoo Place 979 King's Road Quarry Bay Hong Kong

Auditor

Ernst & Young 27/F, One Taikoo Place 979 King's Road Quarry Bay Hong Kong

MANAGER'S REPORT

Global

Performance Overview

For much of 2023, inflation stayed above the Fed target, forcing the Fed to stay hawkish for much of the year – hiking and keeping policy rates above market pricing. Indeed, the market was disappointed, and the January rally sputtered and completely lost ground by February. This was interrupted in March by the US regional bank crisis, which coincided with the forced takeover of Credit Suisse by UBS in Europe. The short-lived crisis aside, the dominant fixed-income market driver for much of 2023 was the market repricing towards central banks' more hawkish guidance. In these respects, the course of 2023 largely followed the plot in the outlook we gave in December 2022. A key driver that did not follow our plot was growth in the US – which proved surprisingly resilient in 2023. This was due to stronger-than-expected consumer spending, which in turn came about from excess savings from COVID-19 stimulus support, increase in consumer leverage, and lagged effects of policy tightening as most US households exercised their option not to refinance their mortgages. European households bore the full brunt of monetary policy tightening, as most mortgage rates were floating in nature. Governments planned to revert towards fiscal discipline, suspended due to COVID-19. Businesses were further hit by weak demand from China. As a result, the European economy contracted in pretty much a textbook reaction to policy tightening even as the US remained resilient.

As weaker growth and sharply decelerating price pressures reverberate around most of the world, DM central banks mostly decided to hit the breaks on policy tightening towards the end of the year. Many emerging markets have already begun cutting rates over the course of the year itself, including Poland, Czech Republic, Hungary, Chile, Peru, and Brazil. Japan proved to be the exception, with business optimism and inflation at the highest levels seen in 3 decades, the Bank of Japan looks set to normalize monetary policy next year. For 2023, the global bond market, as represented by the Bloomberg global aggregate, delivered +5.7% return. Bond yields fell across the board due to rising expectations of broad-based rate cuts in the year ahead. The dollar depreciated 2.1%. US treasuries returned 4.1%, and European government bonds returned 10.4% from lower bond yields and stronger Euro. In emerging markets, local markets returned +6.9%, led by Latam, while Asia was weighed down by relatively lacklustre return from China, which offset strong performance from Indonesia, Philippines, Korea and India. In credits, the emerging market also proved resilient with +6.6% return. US IG outperformed with +8.5% return as recession concerns faded, and companies in the US was supported by Fed term funding programs implemented after the regional bank crisis in March, which boosted the stock market to finish the year at a record high.

MANAGER'S REPORT (continued)

Asia

Performance review

The final quarter of 2023 marked a strong finish to a strong year, with equity returns surprising to the upside. Using the MSCI All Country World Index (USD) as a proxy, global equities advanced 11.1% during the quarter with developed markets outperforming emerging markets, up 11.5% vs. 7.9%. Investor optimism was building as the fourth quarter progressed, powered by further declines in inflation and slowing job growth, prompting signals from the Fed and other Western central Banks of the final innings of monetary policy tightening. Recent inflation reports have also delivered a welcome softening as the year-over-year numbers fell each month in the fourth quarter. Investors anxiously await the next Fed policy decision, which the market expects to be a rate cut. The Asia Pacific ex-Japan Index gained 7.8% during the quarter, performing in-line with the broader MSCI Emerging Markets Index which rose 7.9%. Within Asia Pacific markets, the best performers were Taiwan, up 17.4%, South Korea, up 15.3%, and Australia, up 15.2%. The lone market to decline during the quarter was China, down 3.1%. The top-performing sectors were Information technology, materials, and utilities, while consumer staples, consumer discretionary, and communication services were the worst-performing. The FTSE MPF Asia Pacific ex-Japan Index underperformed the MSCI AC Asia Pacific Ex-Japan during the quarter, rising 7.4% vs. 7.8%. China was the main reason for the underperformance, driven by the consumer discretionary sector.

The quarter saw Asia credit spreads tighten in line with the improvement in risk sentiments due to the turn lower in yields. Overall Asia credit space has held in well, largely due to a lack of supply and supportive technical while fundamentals remain largely intact with China the major economy undergoing the medium-term transition. On the macro front, China's activity data remained weak despite a multitude of stimulus measures announced over the past few months. The property sector has yet to bottom, activity data in the form of industrial production and retail sales have seen some micro bounce while FAI growth rebounded from a relatively low base. China's sovereign rating outlook was downgraded from stable to negative by Moody's, due to the rating agency's longer-term view towards the China property sector. This saw minimal impact on the China IG credit space as the underlying drivers have been priced in by creditors, with most of the potential fallen angle risks limited other than the local government financing vehicles and the asset management companies.

MANAGER'S REPORT (continued)

Hong Kong and China

Performance Review

China's economic activities continue to slow down in the fourth quarter. Chinese equity fell on weak macro data and concerns over property and LGFV risks. Investors are also concerned about potential headwinds from new policies in the internet and gaming space. Overall earnings revision was still weak in December. China is on a new path of slower growth that will be domestically led. Economic indicators still remain challenged by the effects of zero-COVID policies, however, supportive measures should trickle into the economy to form a bottom. We are cautiously optimistic about China's equity market as the economy recovers towards pre-COVID levels. The property market still faces challenges given the high debt levels and falling real estate prices. In fixed income, continued policy support from the government may drive economic stabilization and improvement in the mid to long term. Growth may be realized as the effects of policy support come to the fore, especially given that we expect a lagged effect on recent stimulus actions. We will continue to watch sectors outside Real Estate like Tech, Utilities, and Finance for better-positioned BBB names.

Hong Kong equity markets continue to be lackluster on the back of a benign macroeconomic outlook and underperformed against the US, developed markets and broader Asia. Hong Kong's economic recovery tapered off into year-end as additional fiscal stimulus and the resumption of business and trade activities provided minimal impetus. Investments and capital expenditures remain soft while outbound travel curtailed the consumption recovery. Equity sentiment and macroeconomic outlook will be an incremental driver of HKD spot trajectory as global investors retain a cautious view on China's growth prospects while the potential loosening of IPO listing approvals can fuel some optimism. Growth momentum is likely to hinge on the recently announced measures to attract talent and inflows via an updated CIES scheme as consumption and PMI show early signs of recovery in the last quarter of 2023.

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

7/m

Hong Kong 25 June 2024

INVESTMENT REPORT

Investment portfolio

Constituent Funds	* Units	202 <i>Cost</i> HK\$	Fair value HK\$	% of net asset value
Principal Age 65 Plus Fund				
– Holdings in Principal Unit Trust Umbrella Fund				
– Principal Age 65 Plus Fund	3,071,480	35,508,740	36,890,626	100.39
Principal Balanced Fund				
– Holdings in Principal MPF Fund				
- Principal MPF Balanced Fund - Class M	1,578,786	208,509,134	252,289,970	99.84
Deinsing L Comp Assessments from From d				
Principal Core Accumulation Fund – Holdings in Principal Unit Trust Umbrella Fund				
– Principal Core Accumulation Fund	5 567 070	74 560 227	92 421 110	99.33
– Principal Core Accumulation Fund	5,567,828	74,569,327	83,431,119	99.33
Principal Dynamic Asia Pacific Equity Fund				
- Holdings in Fidelity Global Investment Fund				
– Fidelity Asia Pacific Equity Fund (MPF) - Class B	14,943,628	247,317,561	271,974,029	86.30
- Holdings in Schroder MPF Umbrella Fund				
– Schroder MPF Asian Fund - Class B	761,958	42,830,875	43,423,971	13.78
Principal Dynamic Global Bond Fund				
- Holdings in Fidelity Global Investment Fund				
- Fidelity World Bond Fund - Class B	5,863,642	74,518,153	71,184,619	77.95
- Holdings in Principal Unit Trust Umbrella Fund				
- Principal International Bond Fund	837,840	19,765,099	19,181,342	21.00
Principal Dynamic Global Equity Fund				
- Holdings in Fidelity Global Investment Fund				
 Fidelity Global Equity Fund – Class B 	3,458,028	76,016,237	95,994,853	34.13
- Holdings in Schroder MPF Umbrella Fund				
 Schroder MPF International Fund - Class B 	3,281,518	84,377,837	102,678,686	36.50
 Holdings in Principal Unit Trust Umbrella Fund 				
- Principal International Equity Fund	1,608,357	77,426,425	80,923,831	28.77
Principal Dynamic Hong Kong Equity Fund				
- Holdings in Principal Life Style Fund				
 Principal Hong Kong Equity Fund – Pension Class 	9,234,982	388,528,262	295,102,015	65.45
- Holdings in JPMorgan Savings and Retirement (SAR) Series				
– JPMorgan SAR Hong Kong Fund - Class B	2,518,632	215,779,367	155,978,898	34.59
Principal Growth Fund				
- Holdings in Principal MPF Fund				
- Principal MPF Growth Fund - Class M	2,321,606	322,537,255	407,627,637	100.04
Principal - MPF Conservative Fund				
 Holdings in Principal MPF Fund 				
- Principal MPF Conservative Fund - Class M	2,694,966	297,057,036	315,769,178	99.67
Principal Stable Fund				
– Holdings in Principal MPF Fund				
– Principal MPF Stable Fund – Class M	1,228,866	150,030,571	160,514,465	99.94

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

INVESTMENT REPORT (continued)

Statement of movements in portfolio holdings

	% of net assets as at 31 December 2023	% of net assets as at 31 December 2022
Constituent Funds		
Principal Age 65 Plus Fund – Holdings in Principal Unit Trust Umbrella Fund – Principal Age 65 Plus Fund	100.39	100.22
Principal Balanced Fund – Holdings in Principal MPF Fund – Principal MPF Balanced Fund - Class M	99.84	100.08
Principal Core Accumulation Fund – Holdings in Principal Unit Trust Umbrella Fund – Principal Core Accumulation Fund	99.33	100.57
 Principal Dynamic Asia Pacific Equity Fund Holdings in Fidelity Global Investment Fund Fidelity Asia Pacific Equity Fund (MPF) - Class B Holdings in Schroder MPF Umbrella Fund Schroder MPF Asian Fund - Class B 	86.30 13.78	85.16 14.72
 Principal Dynamic Global Bond Fund Holdings in Fidelity Global Investment Fund Fidelity World Bond Fund - Class B Holdings in Principal Unit Trust Umbrella Fund Principal International Bond Fund 	77.95 21.00	76.14 20.35
 Principal Dynamic Global Equity Fund Holdings in Fidelity Global Investment Fund Fidelity Global Equity Fund - Class B Holdings in Schroder MPF Umbrella Fund Schroder MPF International Fund - Class B Holdings in Principal Unit Trust Umbrella Fund Principal International Equity Fund 	34.13 36.50 28.77	34.44 36.98 27.84
 Principal Dynamic Hong Kong Equity Fund Holdings in Principal Life Style Fund Principal Hong Kong Equity Fund - Pension Class Holdings in JPMorgan Savings and Retirement (SAR) Series JPMorgan SAR Hong Kong Fund - Class B 	65.45 34.59	64.49 35.34
Principal Growth Fund – Holdings in Principal MPF Fund – Principal MPF Growth Fund - Class M	100.04	100.09
Principal - MPF Conservative Fund – Holdings in Principal MPF Fund – Principal MPF Conservative Fund - Class M	99.67	99.98
Principal Stable Fund – Holdings in Principal MPF Fund – Principal MPF Stable Fund - Class M PRINCIPAL MPF - SIMPLE PLAN	99.94	100.11

INVESTMENT REPORT (continued)

Investment income and performance

						2023				
	Principal	Principal	Principal	Principal	Principal	Principal	Principal	Principal	Principal	Principal
	Age 65	Balanced	Core	Dynamic	Dynamic	Dynamic	Dynamic	Growth	- MPF	Stable
	Plus Fund	Fund	Accumulation	Asia Pacific	Global Bond	1 2	Hong Kong	Fund	Conservative	Fund
			Fund	Equity Fund	Fund	Fund	Equity Fund		Fund	
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Investment performance										
Net (losses)/gains of investments										
- realised	(121,015)	6,149,822	1,284,093	1,105,184	(1,920,541)	4,068,203	(20,509,398)	10,738,835	7,016,135	937,346
Net change in unrealised gains/ (losses) of investments	2,973,862	13,147,724	9,410,108	27,435,120	7,030,760	45,202,819	(43,998,261)	23,965,456	8,608,941	9,031,427
						2022				
	Principal	Principal	Principal	Principal	Principal	Principal	Principal	Principal	Principal	
	Age 65	Balanced	Core	Dynamic	Dynamic		Dynamic	Growth	- MPF	Stable
	Principal Age 65		Principal Core	Principal Dynamic		Principal Dynamic Global Equity	Principal Dynamic	Principal Growth	Principal - MPF	Principal Stable

	Age 65	Balanced	Core	Dynamic	Dynamic	Dynamic	Dynamic	Growth	- MPF	Stable
	Plus Fund	Fund	Accumulation	Asia Pacific	Global Bond	Global Equity	Hong Kong	Fund	Conservative	Fund
			Fund	Equity Fund	Fund	Fund	Equity Fund		Fund	
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Investment performance										
Net (losses)/gains of investments - realised Net change in unrealised gains/	(197,082)	5,311,546	907,851	3,417,525	(1,523,037)	2,220,127	(18,764,638)	10,954,048	2,478,333	1,808,423
(losses) of investments	(4,662,051)	(58,590,272)	(12,349,037)	(85,381,718)	(1 <u>5,999,831)</u>	(64,993,947)	(110,342,249)	(102,554,605)	2,269,813	(29,460,356)

						2021				
	Principal	Principal	Principal	Principal	Principal	Principal	Principal	Principal	Principal	Principal
	Age 65	Balanced	Core	Dynamic	Dynamic	Dynamic	Dynamic	Growth	- MPF	Stable
	Plus Fund	Fund	Accumulation	Asia Pacific	Global Bond	Global Equity	Hong Kong	Fund	Conservative	Fund
			Fund	Equity Fund	Fund	Fund	Equity Fund		Fund	
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Investment performance										
Net gains of investments - realised Net change in unrealised gains/	1,473,892	28,533,470	4,908,648	37,847,731	3,772,083	64,982,977	61,686,893	52,680,331	6,258,796	11,901,755
(losses) of investments	(702,336)	(17,657,889)	1,479,970	(40,920,569)	(9,165,848)	(15,457,567)	(167,196,015)	(26,224,225)	(5,102,957)	(12,080,397)

INVESTMENT REPORT (continued)

Investment income and performance (continued)

						2023				
	Principal Age 65	Principal Balanced	Principal Core	Principal Dynamic	Principal Dynamic	Principal Dynamic	Principal Dynamic	Principal Growth	Principal - MPF	Principal Stable
	Plus Fund		Accumulation	Asia Pacific		Global Equity	Hong Kong	Fund		Fund
	r tub r und	1 unu	Fund	Equity Fund	Fund	Fund	Equity Fund	1 unu	Fund	T und
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Income derived from investments										
Rebate income	-	-	-	-	-	-	-	-	-	-
Other income	111	1,212	292	137	739	486	8,945	1,931		1,451
						2022				
	Principal	Principal	Principal	Principal	Principal	Principal	Principal	Principal	Principal	Principal
	Age 65	Balanced	Core	Dynamic	Dynamic	Dynamic	Dynamic	Growth	- MPF	Stable
	Plus Fund	Fund	Accumulation	Asia Pacific		Global Equity	Hong Kong	Fund		Fund
			Fund	Equity Fund	Fund	Fund	Equity Fund		Fund	
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Income derived from investments										
Rebate income								-		
						2021				
	Principal	Principal	Principal	Principal	Principal	Principal	Principal	Principal	Principal	Principal
	Age 65	Balanced	Core	Dynamic	Dynamic	Dynamic	Dynamic	Growth	- MPF	Stable
	Plus Fund	Fund	Accumulation	Asia Pacific		Global Equity	Hong Kong	Fund		Fund
	HK\$	HK\$	Fund HK\$	Equity Fund HK\$	Fund HK\$	Fund HK\$	Equity Fund HK\$	HK\$	Fund HK\$	HK\$
Income derived from investments										
Rebate income	-		-		-		-	-	-	

INVESTMENT REPORT (continued)

Performance table

Investment record as at 31 December 2023

Investment record as at 31 December 2023		
	Net asset value	Total net
	per unit	asset value
	HK\$	HK\$
Principal Age 65 Plus Fund	11.17	36,746,898
Principal Balanced Fund	17.45	252,684,312
Principal Core Accumulation Fund	13.83	83,996,140
Principal Dynamic Asia Pacific Equity Fund	15.07	315,162,938
Principal Dynamic Global Bond Fund	9.71	91,324,348
Principal Dynamic Global Equity Fund	16.49	281,287,557
Principal Dynamic Hong Kong Equity Fund	19.03	450,909,863
Principal Growth Fund	19.80	407,472,543
Principal - MPF Conservative Fund	11.17	316,804,967
Principal Stable Fund	12.68	160,609,620
Investment record as at 31 December 2022		
	Net asset value	Total net
	per unit	asset value
	HK\$	HK\$
Principal Age 65 Plus Fund	10.40	31,863,995
Principal Balanced Fund	16.40	246,048,753
Principal Core Accumulation Fund	12.07	66,020,698
Principal Dynamic Asia Pacific Equity Fund	13.96	300,779,251
Principal Dynamic Global Bond Fund	9.33	86,235,301
Principal Dynamic Global Equity Fund	13.87	240,032,827
Principal Dynamic Hong Kong Equity Fund	22.12	525,749,639
Principal Growth Fund	18.46	388,178,623
Principal - MPF Conservative Fund	10.80	354,794,841
Principal Stable Fund	12.10	155,552,168
Investment record as at 31 December 2021		
	Net asset value	Total net
	per unit	asset value
	HK\$	HK\$
Principal Age 65 Plus Fund	12.14	33,288,682
Principal Balanced Fund	20.16	309,452,823
Principal Core Accumulation Fund	14.49	70,804,789
Principal Dynamic Asia Pacific Equity Fund	17.90	402,644,269
Principal Dynamic Global Bond Fund	11.36	104,165,315
Principal Dynamic Global Equity Fund	17.69	311,656,576
Principal Dynamic Hong Kong Equity Fund	28.09	656,163,711
Principal Growth Fund	23.06	494,754,690
Principal - MPF Conservative Fund	10.79	366,602,926
Principal Stable Fund	14.41	193,625,304

INVESTMENT REPORT (continued)

Performance table (continued)

Performance record for the year ended 31 December 2023

			Lowest	Net
	Fund	Highest	redemption	annualised
	expense	issue price	price per	investment
	ratio	per unit	unit	return
	(%)#	HK\$	HK\$	(%)
Principal Age 65 Plus Fund	0.96983	11.21	10.35	7.40
Principal Balanced Fund	1.74337	17.78	16.03	6.40
Principal Core Accumulation Fund	0.87368	13.86	12.10	14.58
Principal Dynamic Asia Pacific Equity Fund	1.86758	15.27	13.38	7.95
Principal Dynamic Global Bond Fund	1.60370	9.77	8.92	4.07
Principal Dynamic Global Equity Fund	1.83768	16.53	13.84	18.89
Principal Dynamic Hong Kong Equity Fund	1.66138	25.63	18.40	(13.97)
Principal Growth Fund	1.74469	20.29	18.07	7.26
Principal - MPF Conservative Fund	1.15737	11.17	10.80	3.43
Principal Stable Fund	1.71761	12.78	11.81	4.79

Performance record for the year ended 31 December 2022

	Fund expense ratio (%) [#]	Highest issue price per unit HK\$	Lowest redemption price per unit HK\$	Net annualised investment return (%)
Principal Age 65 Plus Fund	0.91	12.12	10.10	(14.33)
Principal Balanced Fund	1.72	20.16	14.78	(18.65)
Principal Core Accumulation Fund	0.93	14.50	11.41	(16.70)
Principal Dynamic Asia Pacific Equity Fund	1.82	18.16	12.68	(22.01)
Principal Dynamic Global Bond Fund	1.55	11.29	8.93	(17.87)
Principal Dynamic Global Equity Fund	1.80	17.77	12.93	(21.59)
Principal Dynamic Hong Kong Equity Fund	1.66	29.35	16.42	(21.25)
Principal Growth Fund	1.73	23.13	16.30	(19.95)
Principal - MPF Conservative Fund	1.28	10.81	10.80	0.09
Principal Stable Fund	1.69	14.36	11.40	(16.03)

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

- Percentage change: (unit price at the end of the year unit price at the beginning of the year)/ unit price at the beginning of the year OR
 (unit price at the last pricing date unit price at the beginning of the year)/ unit price at the beginning of the year
 (for terminated Constituent Fund/ fully redeemed class during the year) OR
 (unit price at the end of the year unit price at the date of inception)/ unit price at the date of inception
 (for newly launched Constituent Fund/ class)
- # The fee and charges of an investment in a listed REIT are not regarded as the underlying fund costs as defined under E3.9 of the Disclosure Code of an APIF for the purposes of calculating FER.

INVESTMENT REPORT (continued)

Performance table (continued)

Performance record for the year ended 31 December 2021

	Highest issue price per unit HK\$	Lowest redemption price per unit HK\$	Net annualised investment return (%)
Principal Age 65 Plus Fund	12.25	11.72	1.51
Principal Balanced Fund	21.20	19.67	1.46
Principal Core Accumulation Fund	14.58	13.21	9.11
Principal Dynamic Asia Pacific Equity Fund	20.84	17.26	(3.14)
Principal Dynamic Global Bond Fund	12.02	11.30	(5.41)
Principal Dynamic Global Equity Fund	17.90	15.17	15.77
Principal Dynamic Hong Kong Equity Fund	39.99	27.27	(16.05)
Principal Growth Fund	24.34	22.31	3.13
Principal - MPF Conservative Fund	10.79	10.79	-
Principal Stable Fund	14.97	14.30	(1.71)

Performance record for the year ended 31 December 2020

	Highest issue price per unit HK\$	Lowest redemption price per unit HK\$	Net annualised investment return (%)
Principal Age 65 Plus Fund	11.96	10.28	8.73
Principal Balanced Fund	19.87	13.79	12.96
Principal Core Accumulation Fund	13.28	9.46	12.73
Principal Dynamic Asia Pacific Equity Fund	18.48	11.33	18.08
Principal Dynamic Global Bond Fund	12.01	10.88	8.59
Principal Dynamic Global Equity Fund	15.28	9.38	13.02
Principal Dynamic Hong Kong Equity Fund	33.46	22.34	16.10
Principal Growth Fund	22.36	14.21	14.61
Principal - MPF Conservative Fund	10.79	10.74	0.47
Principal Stable Fund	14.66	12.09	8.83

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

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

(unit price at the end of the year - unit price at the date of inception)/ unit price at the date of inception (for newly launched Constituent Fund/ class)

INVESTMENT REPORT (continued)

Performance table (continued)

Performance record for the year ended 31 December 2019

	Highest issue price per unit HK\$	Lowest redemption price per unit HK\$	Net annualised investment return (%)
Principal Age 65 Plus Fund	11.03	10.04	9.56
Principal Balanced Fund	17.61	15.33	13.34
Principal Core Accumulation Fund	11.80	10.06	16.17
Principal Dynamic Asia Pacific Equity Fund	15.73	13.15	16.53
Principal Dynamic Global Bond Fund	11.29	10.52	5.13
Principal Dynamic Global Equity Fund	13.55	10.61	25.19
Principal Dynamic Hong Kong Equity Fund	30.31	24.99	11.71
Principal Growth Fund	19.55	16.56	15.86
Principal - MPF Conservative Fund	10.74	10.62	1.13
Principal Stable Fund	13.47	12.40	8.28

Performance record for the year ended 31 December 2018

	Highest issue price per unit HK\$	Lowest redemption price per unit HK\$	Net annualised investment return (%)
Principal Age 65 Plus Fund	10.34	9.94	(2.05)
Principal Balanced Fund	18.42	15.27	(10.55)
Principal Core Accumulation Fund	11.29	9.90	(6.28)
Principal Dynamic Asia Pacific Equity Fund	16.44	12.92	(12.16)
Principal Dynamic Global Bond Fund	10.82	10.33	(1.59)
Principal Dynamic Global Equity Fund	13.01	10.36	(11.26)
Principal Dynamic Hong Kong Equity Fund	33.59	24.53	(14.94)
Principal Growth Fund	20.86	16.50	(13.06)
Principal - MPF Conservative Fund	10.57	10.62	0.47
Principal Stable Fund	13.56	12.33	(5.61)

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

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

INVESTMENT REPORT (continued)

Performance table (continued)

Performance record for the year ended 31 December 2017

	Highest issue price per unit HK\$	Lowest redemption price per unit HK\$	Net annualised investment return (%)
#Principal Age 65 Plus Fund	10.27	9.97	2.50
Principal Balanced Fund	17.35	14.11	23.05
#Principal Core Accumulation Fund	10.83	9.99	8.20
Principal Dynamic Asia Pacific Equity Fund			
(formerly known as "Principal - Fidelity Asia Pacific Equity Fund")	15.29	11.46	33.65
Principal Dynamic Global Bond Fund			
(formerly known as "Principal - Templeton Global Bond Fund")	10.86	10.32	3.29
Principal Dynamic Global Equity Fund			
(formerly known as "Principal - Fidelity Global Equity Fund")	12.19	10.23	19.31
Principal Dynamic Hong Kong Equity Fund			
(formerly known as "Principal - RCM Hong Kong Fund")	30.57	22.71	34.32
Principal Growth Fund	19.37	15.11	28.36
Principal - MPF Conservative Fund	10.57	10.57	-
Principal Stable Fund	13.18	11.70	12.46

These Constituent Funds were newly launched on 1 April 2017.

Performance record for the year ended 31 December 2016

	Highest issue price per unit HK\$	Lowest redemption price per unit HK\$	Net annualised investment return (%)
Principal Balanced Fund	14.73	12.58	1.66
Principal - MPF Conservative Fund	10.57	10.56	-
Principal Growth Fund	15.72	13.00	1.96
Principal - RCM Hong Kong Fund	24.38	18.73	0.27
Principal Stable Fund	12.28	11.23	0.86
Principal - Fidelity Global Equity Fund	10.32	8.84	2.00
Principal - Fidelity Asia Pacific Equity Fund	12.35	9.63	4.76
Principal - Templeton Global Bond Fund	10.83	10.33	(3.18)

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

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

(unit price at the end of the year - unit price at the date of inception)/ unit price at the date of inception (for newly launched Constituent Fund/ class)

INVESTMENT REPORT (continued)

Performance table (continued)

Performance record for the year ended 31 December 2015

	Highest issue price per unit HK\$	Lowest redemption price per unit HK\$	Net annualised investment return (%)
Principal Balanced Fund (formerly known as "AXA Balanced Fund")	16.34	13.24	(5.71)
Principal - MPF Conservative Fund	10.57	10.57	0.09
(formerly known as "AXA MPF Conservative Fund") Principal Growth Fund (formerly lengue as "AXA Growth Fund")	17.67	13.24	(5.43)
(formerly known as "AXA Growth Fund") Principal - RCM Hong Kong Fund	29.72	21.05	(6.59)
(formerly known as "AXA-RCM Hong Kong Fund") Principal Stable Fund	12.99	11.44	(5.52)
(formerly known as "AXA Stable Fund") Principal - Fidelity Global Equity Fund (formerly known as "AXA - Fidelity Global Equity Fund")	10.86	9.34	(1.09)
Principal - Fidelity Asia Pacific Equity Fund	13.25	10.06	(6.90)
(formerly known as "AXA - Fidelity Asia Pacific Equity Fund") Principal - Templeton Global Bond Fund (formerly known as "AXA - Templeton Global Bond Fund")	11.46	10.65	(6.55)

Performance record for the year ended 31 December 2014

	Highest issue price per unit HK\$	Lowest redemption price per unit HK\$	Net annualised investment return (%)
AXA Balanced Fund	15.31	13.99	-
AXA MPF Conservative Fund	10.56	10.56	-
AXA Growth Fund	16.33	14.57	0.45
AXA - RCM Hong Kong Fund	24.77	20.86	4.55
AXA Stable Fund	12.77	12.19	(0.97)
AXA - Fidelity Global Equity Fund	10.34	9.22	4.12
AXA - Fidelity Asia Pacific Equity Fund	12.65	10.60	3.71
AXA - Templeton Global Bond Fund	11.97	11.44	(2.30)

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

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

(unit price at the end of the year - unit price at the date of inception)/ unit price at the date of inception (for newly launched Constituent Fund/ class)

INVESTMENT REPORT (continued)

Investment objectives and policies

Each constituent fund has a separate and distinct investment objective and policy. Subject to the MPF Ordinance, General Regulation, relevant codes and guidelines, the Trustee may change the investment objective and policy of a constituent fund by giving three months' notice (or such longer or shorter notice period as agreed with the SFC and the MPFA) to members and employers of the Plan.

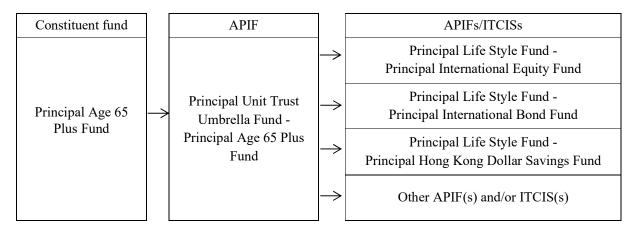
Principal Age 65 Plus Fund

Objective

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

Balance of investments

In order to achieve the investment objective, the Principal Age 65 Plus Fund will invest in a unit trust APIF, the Principal Unit Trust Umbrella Fund - Principal Age 65 Plus Fund, which in turn invests in two or more passively or actively managed APIFs and/or ITCISs as allowed under the General Regulation. PAM, the investment manager of the Principal Unit Trust Umbrella Fund - Principal Age 65 Plus Fund has the discretion, subject to the limits set out in the following paragraph, to determine the allocation percentages of the investments of the Principal Unit Trust Umbrella Fund - Principal Age 65 Plus Fund into passively or actively managed APIFs and/or ITCISs. Please refer to the following product structure chart illustrating the fund structure of the Principal Age 65 Plus Fund:



The Principal Age 65 Plus Fund targets to hold 20% of its underlying assets in higher risk assets, with the remainder investing in lower risk assets. The asset allocation to higher risk assets may vary between 15% and 25% due to differing price movements of various equity and bond markets. There is no prescribed allocation for investments in any specific countries or currencies. While the Principal Unit Trust Umbrella Fund - Principal Age 65 Plus Fund may invest into actively and/or passively managed APIFs and/or ITCISs, the Principal Age 65 Plus Fund and the Principal Unit Trust Umbrella Fund - Principal Age 65 Plus Fund and the Principal Unit Trust Umbrella Fund - Principal Age 65 Plus Fund will be managed to a target of 20% higher risk assets and 80% lower risk assets, with strict adherence to the ranges above. With this strategy, PAM, the investment manager of the Principal Unit Trust Umbrella Fund - Principal Age 65 Plus Fund may allocate the assets among the APIFs and/or ITCISs in such proportions at its discretion in the interest of the unitholders of the Principal Unit Trust Umbrella Fund - Principal Age 65 Plus Fund.

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Principal Age 65 Plus Fund (continued)

Balance of investments (continued)

Effective currency exposure to HKD

The Principal Age 65 Plus Fund will maintain an effective currency exposure to HKD of not less than 30% through currency hedging operations at the Principal Unit Trust Umbrella Fund - Principal Age 65 Plus Fund level.

Security lending and repurchase agreements

Neither the Principal Age 65 Plus Fund nor the Principal Unit Trust Umbrella Fund - Principal Age 65 Plus Fund will enter into any security lending or repurchase agreements.

Futures and options

Neither the Principal Age 65 Plus Fund nor the Principal Unit Trust Umbrella Fund - Principal Age 65 Plus Fund will enter into any financial futures contracts or options contracts.

Risks

The Principal Age 65 Plus Fund, due to its investments being mainly in lower risk assets, has a low to medium risk profile. PAM, the investment manager of the Principal Unit Trust Umbrella Fund - Principal Age 65 Plus Fund determines the risk profile of the Principal Age 65 Plus Fund, which is for your reference only. The risk profile is based on relative exposure to equities/bonds (including an assessment of historical performance/volatility of return) and will be reviewed annually. The return of the Principal Age 65 Plus Fund is expected to be in line with the Principal Age 65 Plus Fund's investment objective, and the Principal Age 65 Plus Fund is expected to perform in line with the Reference Portfolio.

Investments in the Principal Age 65 Plus Fund are subject to market fluctuations and investment risks. Members should, in particular, be aware of the following risks, details of which are in section 4 (Risks):

- Political, economic and social risk
- Interest rate risk
- Market risk
- Accounting standards and disclosure
- Foreign exchange risk
- Security risk
- Credit risk
- Counterparty risk
- Investment grade bond risk
- Liquidity risk
- Risks associated with smallcapitalisation/mid-capitalisation companies
- Risks associated with high volatility of the equity market in certain countries and regions

- Risks associated with regulatory or exchanges requirements of the equity market in certain countries and regions
- Sovereign debt risks
- Valuation risks
- Credit rating risk
- Eurozone risks
- Custodial risk
- Hedging risk
- Risks relating to investing solely in a single APIF or ITCIS
- Risks of investing in collective investment schemes
- Risks relating to investments in PRC securities
- Risk of investing in CIBM and/or Bond Connect
- Principal risks of investing in the DIS

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Principal Balanced Fund

Objective

The Principal Balanced Fund aims to achieve long-term capital growth with the appropriate mix of global equities, global bonds and cash.

Balance of investments

The Principal Balanced Fund pursues its investment objective by investing in a unit trust APIF, the Principal MPF Fund - Principal MPF Balanced Fund. The Principal Balanced Fund, via the APIF, gains exposure to a diversified portfolio of equities, bonds and deposits. Normally around 55% to 85% of the assets will be invested in global equities and around 10% to 40% in global bonds. The remaining assets will be invested in deposits as appropriate.

Security lending and repurchase agreements

The Principal Balanced Fund will not enter into any security lending or repurchase agreements.

Futures and options

The Principal Balanced Fund will not enter into any financial futures contracts or options contracts.

Risks

The Principal Balanced Fund, due to its high exposure to equities, has a medium to high risk profile in terms of fluctuation in the value of the assets of the Principal Balanced Fund. Therefore, the return on the Principal Balanced Fund may fluctuate significantly, particularly in the short term. In the long term, however, the return is expected to be in line with the Principal Balanced Fund's investment objective.

Investments in the Principal Balanced Fund are subject to market fluctuations and investment risks. Members should, in particular, be aware of the following risks, details of which are in section 4 (Risks):

- Political, economic and social risk
- Interest rate risk
- Market risk
- Accounting standards and disclosure
- Foreign exchange risk
- Security risk
- Credit risk
- Counterparty risk
- Investment grade bond risk
- Liquidity risk
- Risks associated with smallcapitalisation/mid-capitalisation companies
- Risks associated with high volatility of the equity market in certain countries and regions

- Risks associated with regulatory or exchanges requirements of the equity market in certain countries and regions
- Sovereign debt risks
- Valuation risks
- Credit rating risk
- Eurozone risks
- Custodial risk
- Hedging risk
- Risks relating to investing solely in a single APIF or ITCIS
- Risks of investing in collective investment schemes
- Risks associated with investments in PRC securities
- Risk of investing in CIBM and/or Bond Connect

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

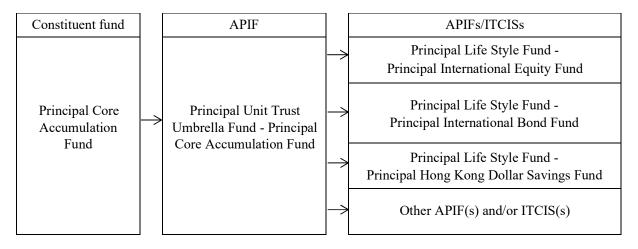
Principal Core Accumulation Fund

Objective

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

Balance of investments

In order to achieve the investment objective, the Principal Core Accumulation Fund will invest in a unit trust APIF, the Principal Unit Trust Umbrella Fund - Principal Core Accumulation Fund, which in turn invests in two or more passively or actively managed APIFs and/or ITCISs as allowed under the General Regulation. PAM, the investment manager of the Principal Unit Trust Umbrella Fund - Principal Core Accumulation Fund has the discretion, subject to the limits set out in the following paragraph, to determine the allocation percentages of the investments of the Principal Unit Trust Umbrella Fund - Principal Core Accumulation Fund into passively or actively managed APIFs and/or ITCISs. Please refer to the following product structure chart illustrating the fund structure of the Principal Core Accumulation Fund:



The Principal Core Accumulation Fund targets to hold 60% of its underlying assets in higher risk assets, with the remainder investing in lower risk assets. The asset allocation of higher risk assets may vary between 55% and 65% due to differing price movements of various equity and bond markets. There is no prescribed allocation for investments in any specific countries or currencies. While the Principal Unit Trust Umbrella Fund - Principal Core Accumulation Fund may invest into actively and/or passively managed APIFs and/or ITCISs, the Principal Core Accumulation Fund and the Principal Unit Trust Umbrella Fund - Principal Core Accumulation Fund and the Principal Unit Trust Umbrella Fund - Principal Core Accumulation Fund and the principal Unit Trust Umbrella Fund - Principal Core Accumulation Fund may allocate the assets and 40% lower risk assets, with strict adherence to the ranges above. With this strategy, PAM, the investment manager of the Principal Unit Trust Umbrella Fund - Principal Core Accumulation Fund may allocate the assets among the APIFs and/or ITCISs in such proportions at its discretion in the interest of the unitholders of the Principal Unit Trust Umbrella Fund - Principal Core Accumulation Fund may allocate the assets among the APIFs and/or ITCISs in such proportions at its discretion in the interest of the unitholders of the Principal Unit Trust Umbrella Fund - Principal Core Accumulation Fund.

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Principal Core Accumulation Fund (continued)

Balance of investments (continued)

Effective currency exposure to HKD

The Principal Core Accumulation Fund will maintain an effective currency exposure to HKD of not less than 30% through currency hedging operations at the Principal Unit Trust Umbrella Fund - Principal Core Accumulation Fund level.

Security lending and repurchase agreements

Neither the Principal Core Accumulation Fund nor the Principal Unit Trust Umbrella Fund - Principal Core Accumulation Fund will enter into any security lending or repurchase agreements.

Futures and options

Neither the Principal Core Accumulation Fund nor the Principal Unit Trust Umbrella Fund - Principal Core Accumulation Fund will enter into any financial futures contracts or options contracts.

Risks

The Principal Core Accumulation Fund, due to its relatively high exposure to equities, has a medium to high risk profile. PAM, the investment manager of the Principal Unit Trust Umbrella Fund - Principal Core Accumulation Fund, determines the risk profile of the Principal Core Accumulation Fund, which is for your reference only. The risk profile is based on relative exposure to equities/bonds (including an assessment of historical performance/volatility of return) and will be reviewed annually. Therefore, the return on the Principal Core Accumulation Fund may fluctuate, particularly in the short term. In the long term, however, the return is expected to be in line with the Principal Core Accumulation Fund's investment objective, and the Principal Core Accumulation Fund is expected to perform in line with the Reference Portfolio.

Investments in the Principal Core Accumulation Fund are subject to market fluctuations and investment risks. Members should, in particular, be aware of the following risks, details of which are in section 4 (Risks):

- Political, economic and social risk
- Interest rate risk
- Market risk
- Accounting standards and disclosure
- Foreign exchange risk
- Security risk
- Credit risk
- Counterparty risk
- Investment grade bond risk
- Liquidity risk
- Risks associated with smallcapitalisation/mid-capitalisation companies
- Risks associated with high volatility of the equity market in certain countries and regions

- Risks associated with regulatory or exchanges requirements of the equity market in certain countries and regions
- Sovereign debt risks
- Valuation risks
- Credit rating risk
- Eurozone risks
- Custodial risk
- Hedging risk
- Risks relating to investing solely in a single APIF or ITCIS
- Risks of investing in collective investment schemes
- Risks associated with investments in PRC securities
- Risk of investing in CIBM and/or Bond Connect
- Principal risks of investing in the DIS

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Principal Dynamic Asia Pacific Equity Fund

Objective

The Principal Dynamic Asia Pacific Equity Fund aims to focus investment into the Asia Pacific equity markets to produce returns that are related to those achieved on the major stock market indices of Asia Pacific. The Principal Dynamic Asia Pacific Equity Fund aims to have the flexibility to invest in bonds in a limited manner and to manage the volatility of returns in the short term.

Balance of investments

The Principal Dynamic Asia Pacific Equity Fund will invest in two or more APIFs and/or ITCISs managed by different managers, which in turn, invest directly into the Asia Pacific equity markets and have the flexibility to invest in the money market in a limited manner. Normally, around 95% of the assets will be invested in equities and around 5% in cash or cash equivalent. The actual portfolio will at times vary considerably from the above as market, political, structural, economic and other conditions change.

Security lending and repurchase agreements

The Principal Dynamic Asia Pacific Equity Fund will not enter into any security lending or repurchase agreements. The APIFs and ITCISs may enter into security lending and repurchase agreements to the extent permitted by the General Regulation.

Futures and options

The Principal Dynamic Asia Pacific Equity Fund will not enter into any financial futures contracts or options contracts. The APIFs and ITCISs may enter into financial futures contracts and options contracts for hedging purposes.

Risks

The Principal Dynamic Asia Pacific Equity Fund, due to its high exposure to equities, has a high risk profile in terms of fluctuations in the value of the assets of the Principal Dynamic Asia Pacific Equity Fund. Therefore, the return on the Principal Dynamic Asia Pacific Equity Fund may fluctuate significantly, particularly in the short term. In the long term, however, the return is expected to be in line with the Principal Dynamic Asia Pacific Equity Fund's investment objective.

Investments in the Principal Dynamic Asia Pacific Equity Fund are subject to market fluctuations and investment risks. Members should, in particular, be aware of the following risks, details of which are in section 4 (Risks):

- Political, economic and social risk
- Market risk
- Accounting standards and disclosure
- Foreign exchange risk
- Security risk
- Liquidity risk
- Risks associated with smallcapitalisation/mid-capitalisation companies
- Risks associated with high volatility of the equity market in certain countries and regions
- Risks associated with regulatory or exchanges requirements of the equity market in certain countries and regions
- Valuation risks
- Custodial risk
- Hedging risk
- Fund of funds risk
- Risks of investing in collective investment schemes
- Risks relating to investments in PRC securities

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Principal Dynamic Global Bond Fund

Objective

The Principal Dynamic Global Bond Fund aims to seek total investment return over the medium to longer term by investing in global bonds.

Balance of investments

The Principal Dynamic Global Bond Fund will invest in two or more APIFs and/or ITCISs managed by different managers so that at least 70% of the assets of the Principal Dynamic Global Bond Fund are invested in fixed income securities issued by governments, governmental agencies and corporates globally. Investment assets include debt obligations (bonds), preferred stocks, corporate debt obligations and convertible securities.

Security lending and repurchase agreements

The Principal Dynamic Global Bond Fund will not enter into any security lending or repurchase agreements. The APIFs and ITCISs may enter into security lending and repurchase agreements to the extent permitted by the General Regulation.

Futures and options

The Principal Dynamic Global Bond Fund will not enter into any financial futures contracts or options contracts. The APIFs and ITCISs may enter into financial futures contracts and options contracts for hedging purposes.

Risks

The Principal Dynamic Global Bond Fund, due to its exposure to bonds, has a low to medium risk profile in terms of fluctuations in the value of the assets of the Principal Dynamic Global Bond Fund. However, the return on the Principal Dynamic Global Bond Fund may fluctuate significantly, particularly in the short term. In the long term, however, the return is expected to be in line with the Principal Dynamic Global Bond Fund's investment objective.

Investments in the Principal Dynamic Global Bond Fund are subject to market fluctuations and investment risks. Members should, in particular, be aware of the following risks, details of which are in section 4 (Risks):

- Political, economic and social risk
- Interest rate risk
- Market risk
- Accounting standards and disclosure
- Foreign exchange risk
- Security risk
- Credit risk
- Counterparty risk
- Investment grade bond risk
- Liquidity risk
- Sovereign debt risks

- Valuation risks
- Credit rating risk
- Eurozone risks
- Custodial risk
- Hedging risk
- Fund of funds risk
- Risks of investing in collective investment schemes
- Risk of investing in CIBM and/or Bond Connect

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Principal Dynamic Global Equity Fund

Objective

The Principal Dynamic Global Equity Fund aims to focus investment into the global equity markets to produce returns that are related to those achieved on the major world stock market indices. The Principal Dynamic Global Equity Fund aims to have the flexibility to have limited investment into bonds and to manage the volatility of returns in the short term.

Balance of investments

The Principal Dynamic Global Equity Fund will invest in two or more APIFs and/or ITCISs managed by different managers, which in turn, invest in a diversified portfolio of global equities and have the flexibility to invest in fixed income securities and money market in a limited manner. Normally, around 98% of the assets will be invested in equities and around 2% in cash or cash equivalent. The actual portfolio will at times vary considerably from the above as market, political, structural, economic and other conditions change.

Security lending and repurchase agreements

The Principal Dynamic Global Equity Fund will not enter into any security lending or repurchase agreements. The APIFs and ITCISs may enter into security lending and repurchase agreements to the extent permitted by the General Regulation.

Futures and options

The Principal Dynamic Global Equity Fund will not enter into any financial futures contracts or options contracts. The APIFs and ITCISs may enter into financial futures contracts and options contracts for hedging purposes.

Risks

The Principal Dynamic Global Equity Fund, due to its very high exposure to equities, has a high risk profile in terms of fluctuations in the value of the assets of the Principal Dynamic Global Equity Fund. Therefore, the return on the Principal Dynamic Global Equity Fund may fluctuate significantly, particularly in the short term. In the long term, however, the return is expected to be in line with the Principal Dynamic Global Equity Fund's investment objective.

Investments in the Principal Dynamic Global Equity Fund are subject to market fluctuations and investment risks. Members should, in particular, be aware of the following risks, details of which are in section 4 (Risks):

- Political, economic and social risk
- Market risk
- Accounting standards and disclosure
- Foreign exchange risk
- Security risk
- Liquidity risk
- Risks associated with smallcapitalisation/mid-capitalisation companies
- Risks associated with high volatility of the equity market in certain countries and regions

- Risks associated with regulatory or exchanges requirements of the equity market in certain countries and regions
- Valuation risks
- Eurozone risks
- Custodial risk
- Hedging risk
- Risks of investing in collective investment schemes
- Fund of funds risk
- Risks relating to investments in PRC securities

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Principal Dynamic Hong Kong Equity Fund

Objective

The Principal Dynamic Hong Kong Equity Fund aims to achieve long term capital growth by investing primarily in Hong Kong equities, including PRC securities listed in Hong Kong.

Balance of investments

The Principal Dynamic Hong Kong Equity Fund pursues its investment objective by investing in two or more APIFs and/or ITCISs, which in turn, invest in a diversified portfolio of Hong Kong equities. Such APIFs and ITCISs may or may not be managed by PAM and/or its affiliates. Normally 70% to 95% of the assets of the Principal Dynamic Hong Kong Equity Fund will be invested in Hong Kong equities, less than 30% of its assets in eligible China A-Shares and B-Shares listed on the Shanghai and Shenzhen stock exchanges, while the remaining will be held in cash or short-term deposits. Any holding of cash or short-term deposits is to provide liquidity and/or for any other purpose as PAM considers appropriate.

Security lending and repurchase agreements

The Principal Dynamic Hong Kong Equity Fund will not enter into any security lending or repurchase agreements. The APIFs and ITCISs may enter into security lending and repurchase agreements to the extent permitted by the General Regulation.

Futures and options

The Principal Dynamic Hong Kong Equity Fund will not enter into any financial futures contracts or options contracts. The APIFs and ITCISs may enter into financial futures contracts and options contracts for hedging purposes.

Risks

The Principal Dynamic Hong Kong Equity Fund, due to its very high exposure to equities, has a high risk profile in terms of fluctuations in the value of the assets of the Principal Dynamic Hong Kong Equity Fund. Therefore, the return on the Principal Dynamic Hong Kong Equity Fund may fluctuate significantly, particularly in the short term. In the long term, however, the return is expected to be in line with the Principal Dynamic Hong Kong Equity Fund's investment objective.

Investments in the Principal Dynamic Hong Kong Equity Fund are subject to market fluctuations and investment risks. Members should, in particular, be aware of the following risks, details of which are in section 4 (Risks):

- Political, economic and social risk
- Market risk
- Accounting standards and disclosure
- Foreign exchange risk
- Security risk
- Liquidity risk
- Risks associated with smallcapitalisation/mid-capitalisation companies
- Risks associated with high volatility of the equity market in certain countries and regions
- Risks associated with regulatory or exchanges requirements of the equity market in certain countries and regions
- Valuation risks
- Custodial risk
- Risks relating to investing in an APIF or an ITCIS that invests in a single market
- Fund of funds risk
- Risks of investing in collective investment schemes
- Risks relating to investments in PRC securities

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Principal Growth Fund

Objective

The Principal Growth Fund aims to achieve significant long-term capital growth with the appropriate mix of global equities, global bonds and cash.

Balance of investments

The Principal Growth Fund pursues its investment objective by investing in a unit trust APIF, the Principal MPF Fund - Principal MPF Growth Fund. The Principal Growth Fund, via the APIF, gains exposure to a diversified portfolio of equities, bonds and deposits, with heavier weighting in equities. Normally around 75% to 100% of the assets will be invested in global equities and up to 25% in global bonds. The remaining assets will be invested in deposits as appropriate.

Security lending and repurchase agreements

The Principal Growth Fund will not enter into any security lending or repurchase agreements.

Futures and options

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

Risks

The Principal Growth Fund, due to its very high exposure to equities, has a high risk profile in terms of fluctuations in the value of the assets of the Principal Growth Fund. Therefore, the return on the Principal Growth Fund may fluctuate significantly, particularly in the short term. In the long term, however, the return is expected to be in line with the Principal Growth Fund's investment objective.

Investments in the Principal Growth Fund are subject to market fluctuations and investment risks. Members should, in particular, be aware of the following risks details of which are in section 4 (Risks):

- Political, economic and social risk
- Interest rate risk
- Market risk
- Accounting standards and disclosure
- Foreign exchange risk
- Security risk
- Credit risk
- Counterparty risk
- Investment grade bond risk
- Liquidity risk
- Risks associated with smallcapitalisation/mid-capitalisation companies
- Risks associated with high volatility of the equity market in certain countries and regions

- Risks associated with regulatory or exchanges requirements of the equity market in certain countries and regions
- Sovereign debt risks
- Valuation risks
- Credit rating risk
- Eurozone risks
- Custodial risk
- Hedging risk
- Risks relating to investing solely in a single APIF or ITCIS
- Risks of investing in collective investment schemes
- Risks associated with investments in PRC securities
- Risk of investing in CIBM and/or Bond Connect

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Principal - MPF Conservative Fund

Objective

The Principal - MPF Conservative Fund aims to achieve a return in line with the prescribed savings rate (i.e. broadly the average rate of interest on a HKD savings account) published by the MPFA.

Balance of investments

The Principal - MPF Conservative Fund pursues its investment objective by investing in a unit trust APIF, the Principal MPF Fund - Principal MPF Conservative Fund. The Principal - MPF Conservative Fund, via the APIF may invest in HKD denominated deposits and debt securities issued by financial institutions, sovereign issuers and corporate issuers, subject to restrictions applicable to MPF conservative funds imposed by the MPF Ordinance, General Regulation, relevant codes and guidelines.

Security lending and repurchase agreements

The Principal - MPF Conservative Fund will not enter into any security lending or repurchase agreements.

Futures and options

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

Risks

The Principal - MPF Conservative Fund is not a guaranteed fund and does not provide any capital or income guarantee. The Principal - MPF Conservative Fund is a conservative and low-risk investment product and is expected to achieve its investment objective in most months. However, future fluctuations in interest rates and hence the value of the assets of the Principal - MPF Conservative Fund together with the possibility of defaults by institutions and issuers mean that in some months the return will inevitably fall below the prescribed savings rate.

Investments in the Principal - MPF Conservative Fund are subject to market fluctuations and investment risks. Members should, in particular, be aware of the following risks, details of which are in section 4 (Risks):

- Political, economic and social risk
- Interest rate risk
- Market risk
- Accounting standards and disclosure
- Security risk
- Credit risk
- Counterparty risk
- Investment grade bond risk
- Liquidity risk

- Sovereign debt risks
- Valuation risks
- Credit rating risk
- Custodial risk
- Risks relating to investing solely in a single APIF or ITCIS
- Risks of investing in collective investment schemes
- Risk relating solely to investment in the Principal MPF Conservative Fund

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Principal Stable Fund

Objective

The Principal Stable Fund aims to achieve stable long-term capital growth with the appropriate mix of global equities, global bonds and cash.

Balance of investments

The Principal Stable Fund pursues its investment objective by investing in a unit trust APIF, the Principal MPF Fund - Principal MPF Stable Fund. The Principal Stable Fund, via the APIF, gains exposure to a diversified portfolio of equities, bonds and deposits. Normally around 15% to 45% of the assets will be invested in global equities and around 45% to 75% in global bonds. The remaining assets will be invested in deposits as appropriate.

Security lending and repurchase agreements

The Principal Stable Fund will not enter into any security lending or repurchase agreements.

Futures and options

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

Risks

The Principal Stable Fund has a medium risk profile in terms of fluctuations in the value of the assets of the Principal Stable Fund. However, the return on the Principal Stable Fund may still fluctuate significantly, particularly in the short term. In the long term, however, the return is expected to be in line with the Principal Stable Fund's investment objective.

Investments in the Principal Stable Fund are subject to market fluctuations and investment risks. Members should, in particular, be aware of the following risks, details of which are in section 4 (Risks):

- Political, economic and social risk
- Interest rate risk
- Market risk
- Accounting standards and disclosure
- Foreign exchange risk
- Security risk
- Credit risk
- Counterparty risk
- Investment grade bond risk
- Liquidity risk
- Risks associated with smallcapitalisation/mid-capitalisation companies
- Risks associated with high volatility of the equity market in certain countries and regions

- Risks associated with regulatory or exchanges requirements of the equity market in certain countries and regions
- Sovereign debt risks
- Valuation risks
- Credit rating risk
- Eurozone risks
- Custodial risk
- Hedging risk
- Risks relating to investing solely in a single APIF or ITCIS
- Risks of investing in collective investment schemes
- Risks associated with investments in PRC securities
- Risk of investing in CIBM and/or Bond Connect

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Commentary by the Trustee

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

Principal Age 65 Plus Fund

Launch Date: 1 April 2017

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

	1 year (%)	5 year ann. (%)	10 year ann. (%)	Since Launch ann. (%)
Fund Performance*	7.40	2.14	N/A	1.64
Benchmark/Performance Target#	7.21	1.73	N/A	1.59
Deviation	0.19	0.41	N/A	0.05

The fund outperformed the benchmark in 1-year, 5-year and since launch periods.

The fund was launched in April 2017 to provide capital growth to members by investing in a globally diversified manner. The rebalancing plan has been completed in Q4 2022, where the Manager trimmed down an underperforming underlying manager and reallocated to others to enhance diversification across investment style and alpha source. The fund has been offered more active components to grasp opportunities in the market and an improvement on performance can be seen this year after the rebalancing.

During the financial period ended 31 December 2023, exposures to global bonds and equities brought positive returns to the fund during 2023, especially the rally in fixed income and equity in Q4 as the US economic data provided much needed relief that inflation peaked.

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Commentary by the Trustee (continued)

Principal Balanced Fund

Launch Date: 20 January 2005

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

	1 year (%)	5 year ann. (%)	10 year ann. (%)	Since Launch ann. (%)
Fund Performance*	6.40	2.37	1.72	3.00
Benchmark/Performance Target#	6.41	2.31	2.08	N/A
Deviation	-0.01	0.06	-0.36	N/A

The fund underperformed the benchmark in 1-year and 10-year periods, but outperformed in 5-year period.

The fund utilizes both top-down (asset allocation) and bottom-up (stock selection) investing strategies. During the financial period ended 31 December 2023, the majority of global equity markets have provided significant returns to investors, which was led by a cooling off in global inflation and a higher expectation of rate cuts by the US Fed and other central banks. Hong Kong and China were among the worst performing markets, given the concerns about property sector and geopolitical tension. Fixed income markets also concluded 2023 on a robust note, marked by a global peak in yields and the conclusion of the global central bank hiking cycle, and contributed to the fund return.

The fund slightly underperformed the reference benchmark over 2023. With positive asset allocation alpha, stock selection effects detracted the most. Performance of some building blocks lagged the indexes and acted as the key detractor of the fund's performance: one of the US equity sleeves underperformed with the underweight of some large-index-weighed Blue Chip exposures; the European equity sleeve was also weighed by the stock selection in Industrials sector over the year. In the meantime, allocation in US tech and China A-shares ETFs acted as the main contributors to the fund, and outperformance in our Hong Kong equity sleeve relative to index also acted as a contributor.

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Commentary by the Trustee (continued)

Principal Core Accumulation Fund

Launch Date: 1 April 2017

Reference Benchmark: MPF DIS Reference Portfolio - Core Accumulation Fund

	1 year (%)	5 year ann. (%)	10 year ann. (%)	Since Launch ann. (%)
Fund Performance*	14.58	6.40	N/A	4.92
Benchmark/Performance Target#	14.03	6.49	N/A	5.28
Deviation	0.55	-0.09	N/A	-0.36

The fund outperformed the benchmark in 1-year period, but underperformed in 5-year and since launch periods.

The fund was launched in April 2017 to provide capital growth to members by investing in a globally diversified manner. The rebalancing plan has been completed in Q4 2022, where the Manager trimmed down an underperforming underlying manager and reallocated to others to enhance diversification across investment style and alpha source. The fund has been offered more active components to grasp opportunities in the market and an improvement on performance can be seen in 2023.

During the financial period ended 31 December 2023, quality factor was the best performer among various investment style factors this year, and our active global equity component with quality factor tilt outperformed the global equity index due to the improved valuation and earnings remain a key catalyst to further upside potential.

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Commentary by the Trustee (continued)

Principal Dynamic Asia Pacific Equity Fund

Launch Date: 19 December 2006

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

	1 year (%)	5 year ann. (%)	10 year ann. (%)	Since Launch ann. (%)
Fund Performance*	7.95	2.33	2.90	2.46
Benchmark/Performance Target#	15.62	8.83	5.00	4.40
Deviation	-7.67	-6.50	-2.10	-1.94

The fund underperformed the benchmark on 1-year, 5-year, 10-year and since launch periods.

2023 has been a challenging year globally, as real estate occupiers and investors navigated macroeconomic headwinds. Investor sentiment turned increasingly downbeat amid concerns over deflation, weak consumer confidence, and poor real estate market in China. An escalation of the Israel-Gaza War into a broader conflict has also weighed on the performance in Asian markets.

During the financial period ended 31 December 2023, the asset allocation contributed to the performance particularly the underweight in materials and utilities. However, it is offset by the negative asset allocation to the underweight in financials and health care, and the overweight in consumer staples and communication services. Negative stock selection in consumer discretionary and information technology also weighed on the performance. The drag on performance over longer time period can be attributed to the negative stock selection in China, Australia and India.

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

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Commentary by the Trustee (continued)

Principal Dynamic Global Bond Fund

Launch Date: 19 December 2006

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

	1 year (%)	5 year ann. (%)	10 year ann. (%)	Since Launch ann. (%)
Fund Performance*	4.07	-1.59	-1.86	-0.17
Benchmark/Performance Target#	3.77	-2.32	-1.03	0.53
Deviation	0.30	0.73	-0.83	-0.70

The fund outperformed the benchmark in 1-year and 5-year periods, but underperformed in 10-year and since launch periods.

Global fixed income market remained volatile over the year but concluded 2023 on a robust note supported by a global peak in yields and the conclusion of the global central bank hiking cycle. During the financial period ended 31 December 2023, the performance was mainly supported by the credit and yield curve positioning. Allocation in term structure also contributed to the performance. Additional alpha was delivered through sector selection and currency management. Given the relatively better performance attained in 2023, the long-term relative performance (e.g. since launch) of the fund has been improved.

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

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Commentary by the Trustee (continued)

Principal Dynamic Global Equity Fund

Launch Date: 19 December 2006

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

	1 year (%)	5 year ann. (%)	10 year ann. (%)	Since Launch ann. (%)
Fund Performance*	18.89	8.85	5.44	3.00
Benchmark/Performance Target#	20.34	10.48	6.85	4.87
Deviation	-1.45	-1.63	-1.41	-1.87

The fund underperformed the benchmark in 1-year, 5-year, 10-year and since launch periods.

The majority of global equity markets have provided significant returns to investors, which was led by a cooling off in global inflation and a higher expectation of rate cuts by the US Fed and other central banks. During the financial period ended 31 December 2023, the fluctuations in China and Hong Kong market were the key source of detraction, hurt by sessions of sell off in Asian markets, in particular, some Chinese sectors. In terms of the asset allocation, the underweight in Asia and overweight in US equities added value to relative performance. However, underweight in Europe, overweight in cash and the position in Hong Kong equities hurt the performance of the fund. Negative stock selection in US, Europe, and Japan also dragged on return.

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

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Commentary by the Trustee (continued)

Principal Dynamic Hong Kong Equity Fund

Launch Date: 20 January 2005

Reference Benchmark: FTSE MPF Hong Kong

	1 year (%)	5 year ann. (%)	10 year ann. (%)	Since Launch ann. (%)
Fund Performance*	-13.97	-5.91	-1.90	3.48
Benchmark/Performance Target#	-13.41	-5.73	-1.30	3.81
Deviation	-0.56	-0.18	-0.60	-0.33

The fund underperformed the benchmark in 1-year, 5-year, 10-year and since launch periods.

China's deteriorating property sector has continued to be an area of weakness for the Chinese economy and remains a drag on overall market sentiment in 2023. Hong Kong and China equities, which turned in negative returns in 2023, both had a very volatile year. China's consumption rebounded slowed and private business confidence lost momentum also dragged on equity market in China. The fund, which heavily relies on bottom up, high conviction investing strategies, faced headwinds in times of sector rotation.

During the financial period ended 31 December 2023, healthcare and consumer discretionary sectors detracted over the 12-month period, largely due to regulatory and political risks having more negative impact on the holdings. Negative stock selection, especially in financials, dragged the performance of the fund over the year. The long-term relative performance (e.g. 10-year and since launch) was also impacted during the year.

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

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Commentary by the Trustee (continued)

Principal Growth Fund

Launch Date: 20 January 2005

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

	1 year (%)	5 year ann. (%)	10 year ann. (%)	Since Launch ann. (%)
Fund Performance*	7.26	3.29	2.43	3.69
Benchmark/Performance Target#	7.52	3.57	2.93	N/A
Deviation	-0.26	-0.28	-0.50	N/A

The fund underperformed benchmark in 1-year, 5-year and 10-year periods.

The fund utilizes both top-down (asset allocation) and bottom-up (stock selection) investing strategies. The majority of global equity markets have provided significant returns to investors, which was led by a cooling off in global inflation and a higher expectation of rate cuts by the US Fed and other central banks. However, Hong Kong and China equities, which turned in negative returns in 2023, have had a very volatile year. Both markets were among the worst performing markets, given the concerns about property sector, weak consumer confidence and geopolitical tension. On the fixed income side, fixed income markets also concluded 2023 on a robust note, marked by a global peak in yields and the conclusion of the global central bank hiking cycle, and contributed to the fund return.

During the financial period ended 31 December 2023, asset allocation alpha was positive, while the fund ended lower with detraction in mainly equity side. Negative stock selection in US and Europe detracted the most in performance over the year. The overweight in Hong Kong and underweight in European equities also put pressure on the performance, while the allocation in US tech and China A-shares ETFs partially offset the losses.

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Commentary by the Trustee (continued)

Principal - MPF Conservative Fund

Launch Date: 20 January 2005

Reference Benchmark: MPF Prescribed Savings Rate

	1 year (%)	5 year ann. (%)	10 year ann. (%)	Since Launch ann. (%)
Fund Performance*	3.43	1.00	0.55	0.58
Benchmark/Performance Target#	0.76	0.19	0.10	0.35
Deviation	2.67	0.81	0.45	0.23

The fund outperformed the benchmark in 1-year, 5-year and 10-year and since launch periods.

The fund achieved its objective over 2023, which is to at least earn a net return equal to the "prescribed savings rate" (which is broadly the average rate of interest on a Hong Kong dollar savings account) determined by the MPFA.

HKMA raised the Hong Kong Base Rate to 5.75% following the US Fed hike over the financial period. The entire HIBOR curve shifted higher on the back of tighter funding and the expectation that policy rate may remain elevated throughout the year. Rates in deposits and credit space broadly followed the move in higher funding costs. This has the effect of lifting the fund's yield, as well as performance relative to the benchmark.

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Commentary by the Trustee (continued)

Principal Stable Fund

Launch Date: 20 January 2005

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

	1 year (%)	5 year ann. (%)	10 year ann. (%)	Since Launch ann. (%)
Fund Performance*	4.79	0.38	0.20	1.27
Benchmark/Performance Target#	4.70	-0.27	0.23	N/A
Deviation	0.09	0.65	-0.03	N/A

The fund outperformed benchmark in 1-year and 5-year periods, but performed in line in 10-year period.

The fund utilizes both top-down (asset allocation) and bottom-up (stock selection) investing strategies. Most of the global equity markets have provided significant returns to investors in 2023, which was led by a cooling off in global inflation and a higher expectation of rate cuts by the US Fed and other central banks. However, Hong Kong and China equities have had a very volatile year and were among the worst performing markets in Asia. Fixed income markets concluded 2023 on a robust note, marked by a global peak in yields and the conclusion of the global central bank hiking cycle.

During the financial period ended 31 December 2023, the fund slightly outperformed the reference benchmark. Both asset allocation and stock selection alpha were positive. Although there is relative less portion in equity side, negative stock selection in US and Europe equities still weighed on the performance, while outperformance in our short duration fixed income sleeve relative to its benchmark helped to offset some impacts. Gains in our global bond sleeve also added positively and acted as a contributor.

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Performance assessment framework:

Principal Trust Company (Asia) Limited (the "Trustee") and Principal Asset Management Company (Asia) Limited (the "Investment Manager") take continuous efforts in reviewing and improving the performance of the Constituent Funds. Currently, an investment committee is in place to oversee the performance of the Constituent Funds and the underlying fund managers. Appropriate qualitative and quantitative assessments are utilized to monitor all Constituent Funds with the oversight of a local investment committee. Ongoing conference calls or meetings with delegate manager(s) are conducted to review each investment team and strategy and discuss business goals. The objective of this qualitative assessment is to ensure the delegate manager retains the organizational traits and the investment process characteristics that served as the basis for the original hiring decision. Meanwhile, quantitative assessments focus on those elements that can be measured objectively and compared to certain targets or goals. The most common and important form of quantitative assessment is the periodic review of historical performance against benchmarks and peers. Assessment of concerned funds would be further conducted, whilst appropriate actions would be taken if necessary, including but not limited to rebalancing the strategic asset allocation, replacing the existing underlying funds and reviewing the investment objective and policy. The Board of the Trustee will review the performance results and enhancement plans delivered by the investment committee on a quarterly basis.

Global equity and fixed income markets both rallied sharply to close out 2023, fueled by a cooling off in global inflation and a higher expectation of rate cuts by the Fed and other central banks. The year ended 31 December 2023 was favorable for deeply fundamental managers. The quality biased metrics in the Investment Manager's investment process proved to be excelled in the market which quality factor had performed admirably and significantly outperformed other factors throughout the year, emerging as the strongest factor globally in 2023. Principal Dynamic Asia Pacific Equity Fund, Principal Dynamic Hong Kong Equity Fund, Principal Growth Fund, Principal Balanced Fund, Principal Stable Fund and Principal Core Accumulation Fund outperformed peer medians at the close of 2023. The Investment Manager's process remains focus on bottom-up stock picking as the principal driver of outperformance. By identifying companies experiencing positive change, it benefits the long-term performance and helps to generate better performance over benchmarks over market cycles.

The Investment Manager and/or the underlying Delegate Investment Managers will continue to monitor the Constituent Funds with underperformance issues and the effect of implemented changes (if any) as noted on the respective commentary in the previous section.

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Changes in the statement of investment policy

Principal Age 65 Plus Fund Principal Balanced Fund Principal Core Accumulation Fund Principal Dynamic Asia Pacific Equity Fund Principal Dynamic Global Bond Fund Principal Dynamic Global Equity Fund Principal Dynamic Hong Kong Equity Fund Principal Growth Fund Principal - MPF Conservative Fund Principal Stable Fund

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

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

Martin Tan

Hong Kong 25 June 2024



SCHEME REPORT

The Trustee hereby submits the scheme report of Principal MPF - Simple Plan (the "Scheme") for the year ended 31 December 2023 in accordance with section 86 of Mandatory Provident Fund Schemes (General) Regulation ("MPF Regulation").

The Scheme

The Scheme is a master trust scheme registered in accordance with the Mandatory Provident Fund Schemes Ordinance (the "Ordinance") for the purpose of providing retirement benefits to members. The Scheme was established under a Master Trust Deed dated 5 January 2005, as subsequently amended. The Scheme is registered under section 21 of the Ordinance.

Financial development

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

Enquiry

Further information about the Scheme and its operation can be obtained by contacting Principal Trust Company (Asia) Limited, the administrator of the Scheme, at 2802-2812 or 2885-8011 or via the internet at www.principal.com.hk.

Directory of parties

Details of those parties engaged by the Trustee for the purposes of providing services to the Scheme during the year ended 31 December 2023 are set out on page 1.

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

Change to the governing rules

During the financial year ended 31 December 2023, the governing rules of the Scheme have not been changed.

SCHEME REPORT (continued)

Directors

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

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

Lau Martin Kin Yeung 30/F, Millennium City 6 392 Kwun Tong Road Kwun Tong, Kowloon Hong Kong

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

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

Liu Man Kwong (resigned on 31 May 2024) 30/F, Millennium City 6 392 Kwun Tong Road Kwun Tong, Kowloon Hong Kong

Lam Heung Yeung Herman 30/F, Millennium City 6 392 Kwun Tong Road Kwun Tong, Kowloon Hong Kong

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

SCHEME REPORT (continued)

Controllers

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

Julian Christopher Vivian Pull 30/F, Millennium City 6 392 Kwun Tong Road Kwun Tong, Kowloon Hong Kong

Lau Martin Kin Yeung 30/F, Millennium City 6 392 Kwun Tong Road Kwun Tong, Kowloon Hong Kong

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

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

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

Principal International (Asia) Limited 29/F, Sun Hung Kai Centre 30 Harbour Road Wanchai Hong Kong

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

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

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

SCHEME REPORT (continued)

Controllers

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

Kenneth Kirk West (resigned on 21 June 2024) 29/F, Sun Hung Kai Centre 30 Harbour Road Wanchai Hong Kong

Chiu Siu Po Steve (appointed on 1 March 2023) 29/F, Sun Hung Kai Centre 30 Harbour Road Wanchai Hong Kong

Zhong Rongsa (appointed on 1 March 2023) 29/F, Sun Hung Kai Centre 30 Harbour Road Wanchai Hong Kong

Rohit Vohra (appointed on 1 March 2023) 29/F, Sun Hung Kai Centre 30 Harbour Road Wanchai Hong Kong

Ching Ho Yin Derek (resigned on 1 March 2023) 29/F, Sun Hung Kai Centre 30 Harbour Road Wanchai Hong Kong

Barbara Ann McKenzie (appointed on 1 January 2023) (resigned on 1 March 2023) 29/F, Sun Hung Kai Centre 30 Harbour Road Wanchai Hong Kong

Paul McConomy (appointed on 1 January 2023) (resigned on 1 March 2023) 29/F, Sun Hung Kai Centre 30 Harbour Road Wanchai Hong Kong

Principal International (Asia) Limited 29/F, Sun Hung Kai Centre 30 Harbour Road Wanchai Hong Kong

SCHEME REPORT (continued)

<u>Controllers (continued)</u> The controllers of Principal Asset Management Company (Asia) Limited during the year and up to the date of this report were: (continued)

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

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

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

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

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Hong Kong 25 June 2024

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Ernst & Young 27/F, One Taikoo Place 979 King's Road Quarry Bay, Hong Kong 安永會計師事務所 香港鰂魚涌英皇道979號 太古坊一座27樓

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Independent auditor's report To the Trustee of Principal MPF - Simple Plan

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Principal MPF - Simple Plan (the "Scheme") set out on pages 47 to 84, which comprise the statement of net assets available for benefits as at 31 December 2023, and the statement of profit or loss and other comprehensive income, the statement of changes in net assets available for benefits, and the statement of cash flows for the year then ended and notes to the financial statements, including material accounting policy information.

In our opinion, the financial statements give a true and fair view of the financial position of the Scheme as at 31 December 2023, and of its financial transactions and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Basis for Opinion

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

Other Information included in the Annual Report

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

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

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

Responsibilities of Trustee for the Financial Statements

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



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

Responsibilities of Trustee for the Financial Statements (continued)

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

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

The Trustee is responsible for overseeing the Scheme's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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



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

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

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

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

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

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Certified Public Accountants Hong Kong 25 June 2024

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

							2023						
	Notes	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$	Scheme level HK\$	Total HK\$
Income													
Gains/(losses) on investments Other income	s 3	2,852,847 111	19,297,546 1,212	10,694,201 292	28,540,304 137	5,110,219 739	49,271,022 486	(64,507,659) 8,945	34,704,291 1,931	15,625,076	9,968,773 1,451	-	111,556,620 15,304
		2,852,958	19,298,758	10,694,493	28,540,441	5,110,958	49,271,508	(64,498,714)	34,706,222	15,625,076	9,970,224	-	111,571,924
Expenditure													
Audit fee		(992)	(9,262)	(4,104)	(12,032)	(3,134)	(10,908)	(15,515)	(15,111)	(11,514)	(5,527)	-	(88,099)
Investment management fee	4(a), 4(c)	(84,277)	(836,456)	(184,684)	(1,228,054)	(340,891)	(1,043,779)	(2,368,202)	(1,336,207)	(423,150)	(520,584)	-	(8,366,284)
Legal and professional fees	(L) h	(13,812)	(17,416) (118,777)	(8,565)	(19,464)	(13,543)	(27,001)	(33,648)	(19,977)	(20,181)	(8,886)	-	(182,493)
Operating expenses Sponsor fee	4(d) 4(a), 4(e)	(50,418)	(633,678)	(55,689)	(153,267) (767,534)	(63,347) (218,520)	(158,155) (652,362)	(178,630) (1,260,487)	(158,878) (1,012,278)	(201,387) (961,704)	(70,611) (394,381)	-	(1,209,159) (5,900,944)
Trustee and administrator fee	4(a), 4(b)	(168,554)	(2,509,367)	(369,369)	(3,070,136)	(673,041)	(2,609,447)	(4,336,074)	(4,008,620)	(2,346,558)	(1,561,751)	-	(21,652,917)
		(318,053)	(4,124,956)	(622,411)	(5,250,487)	(1,312,476)	(4,501,652)	(8,192,556)	(6,551,071)	(3,964,494)	(2,561,740)	-	(37,399,896)
Increase/(decrease) in net a available for benefits and profit or loss and other comprehensive income for the year		2,534,905	15,173,802	10,072,082	23,289,954	3,798,482	44,769,856	(72,691,270)	28,155,151	11,660,582	7,408,484	_	74,172,028

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

							2022						
	Notes	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$	Scheme level HK\$	Total HK\$
Income (Losses)/gains on investment	s 3	(4,859,133)	(53,278,726)	(11,441,186)	(81,964,193)	(17,522,868)	(62,773,820)	(129,106,887)	(91,600,557)	4,748,146	(27,651,933)	<u>-</u>	(475,451,157)
		(4,859,133)	(53,278,726)	(11,441,186)	(81,964,193)	(17,522,868)	(62,773,820)	(129,106,887)	(91,600,557)	4,748,146	(27,651,933)	-	(475,451,157)
Expenditure Audit fee Investment management fee Legal and professional fees Operating expenses Sponsor fee Trustee and administrator fee	4(a), 4(c) 4(d) 4(a), 4(e) 4(a), 4(b)	(327) (81,914) (455) (35,720) - (163,828) (282,244)	(7,908) (862,549) (4,686) (84,432) (653,446) (2,587,646) (4,200,667)	(583) (162,746) (751) (83,028) - (325,492) (572,600)	(10,432) (1,346,302) (6,143) (111,660) (841,439) (3,365,756) (5,681,732)	(2,910) (362,502) (1,911) (41,165) (232,373) (715,710) (1,356,571)	(6,657) (1,090,480) (4,153) (72,523) (651,441) (2,605,761) (4,431,015)	(20,692) (2,589,306) (12,203) (206,855) (1,378,170) (4,740,904) (8,948,130)	(12,302) (1,352,366) (7,245) (125,194) (1,024,520) (4,057,098) (6,578,725)	(11,604) (489,191) (142,303) (1,111,798) (2,712,786) (4,467,682)	(5,260) (546,574) (3,222) (59,335) (414,072) (1,639,724) (2,668,187)		(78,675) (8,883,930) (40,769) (962,215) (6,307,259) (22,914,705) (39,187,553)
(Decrease)/increase in net a available for benefits and profit or loss and other comprehensive income for the year		(5,141,377)	(57,479,393)	(12,013,786)	(87,645,925)	(18,879,439)	(67,204,835)	(138,055,017)	(98,179,282)	280,464	(30,320,120)	<u>-</u>	(514,638,710)

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

							202	23					
	Notes	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$	Scheme level HK\$	Total HK\$
Assets Investments measured at fair value through profit or loss Contributions receivable Subscriptions in transit Accounts receivable Cash and cash equivalents	5	36,890,626 190,502 101,528 37,182,656	252,289,970 918,756 1,122,119 254,330,845	83,431,119 1,152,148 66,768 84,650,035	315,398,000 405,440 462,213 316,265,653	90,365,961 1,214,440 1,784,928 93,365,329	279,597,370 2,359,564 1,209,968 283,166,902	451,080,913 1,686,502 467,382 453,234,797	407,627,637 623,375 1,497,646 409,748,658	315,769,178 2,323,116 2,037,665 320,129,959	160,514,465 516,331 379,520 161,410,316	10,232,860 5,542,860 15,775,720	2,392,965,239 10,232,860 11,390,174 9,129,737 5,542,860 2,429,260,870
Liabilities Amounts pending for allocation Amounts payable on redemptio Amounts payable to brokers Accrued expenses and other pay	ns	80,493 130,519 224,746 435,758	1,230,435 13,926 402,172 1,646,533	79,069 18,073 556,753 653,895	540,106 33,534 529,075 1,102,715	1,808,341 98,451 134,189 2,040,981	1,264,842 180,340 434,163 1,879,345	822,294 595,338 907,302 2,324,934	1,554,297 21,090 700,728 2,276,115	2,499,408 273,135 552,449 3,324,992	416,621 88,990 295,085 800,696	2,934,363 238,138 2,370,359 5,542,860	2,934,363 10,534,044 1,453,396 7,107,021 22,028,824
Net assets available for benefits		36,746,898	252,684,312	83,996,140	315,162,938	91,324,348	281,287,557	450,909,863	407,472,543	316,804,967	160,609,620	10,232,860	2,407,232,046

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS (continued)

Year ended 31 December 2023

							202	23 (continued)			
							Principal				
				Principal	Principal	Principal	Dynamic	Principal		Principal	
		Principal	Principal	Core	Dynamic	Dynamic	Global	Dynamic	Principal	- MPF	Principal
		Age 65	Balanced	Accumulation	Asia Pacific	Global Bond	Equity	Hong Kong	Growth	Conservative	Stable
		Plus Fund	Fund	Fund	Equity Fund	Fund	Fund	Equity Fund	Fund	Fund	Fund
	Notes	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
	_										
Number of units in issue	7	3,288,434.2376	14,480,228.5357	6,072,505.0636	20,906,273.0963	9,403,599.0686	17,057,087.8468	23,687,124.4323	20,571,905.9169	28,357,199.7585	12,659,492.4380
Net asset value per unit		11.17	17.45	13.83	15.07	9.71	16.49	19.03	19.80	11.17	12.68
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For and on behalf of Principal Trust Company (Asia) Limited

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Director

-Director

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS (continued)

							202	22					
	Notes	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$	Scheme level HK\$	Total HK\$
Assets Investments measured at fair value through profit or loss	5	31,935,070	246,236,270	66,395,187	300,419,085	83,213,241	238,250,358	524,865,084	388,518,011	354,716,721	155,716,225	-	2,390,265,252
Contributions receivable Subscriptions in transit Accounts receivable Cash and cash equivalents	6	145,259 1,269,274	59,676 1,812,221	590,354 1,821,101	925,707 2,855,985	1,968,586 4,518,433	3,299,594 7,573,433	25,553,859 24,573,013	- 64,468 2,610,268	5,271,614 9,456,642	23,069 1,892,629	10,673,885 - 8,730,315	10,673,885 37,902,186 58,382,999 8,730,315
Cush and Cush equivalents	Ū	33,349,603	248,108,167	68,806,642	304,200,777	89,700,260	249,123,385	574,991,956	391,192,747	369,444,977	157,631,923	19,404,200	2,505,954,637
Liabilities Amounts pending for allocation Amounts payable on redemptic Amounts payable to brokers Accrued expenses and other pa	ons	1,120,169 55,408 310,031	245,326 26,340 1,787,748	289,184 1,724,250 772,510	1,045,579 21,676 2,354,271	1,440,422 1,320,637 703,900	3,697,715 3,090,595 2,302,248	16,494,149 27,957,898 4,790,270	195,178 37,349 2,781,597	5,840,001 5,095,859 3,714,276	910,497 13,024 1,156,234	6,352,318 225,572 2,152,425	$\begin{array}{r} 6,352,318\\31,503,792\\39,343,036\\22,825,510\\\hline 100,024,65\\\end{array}$
Net assets available for benefits		1,485,608 31,863,995	2,059,414 246,048,753	2,785,944 66,020,698	3,421,526 300,779,251	3,464,959 86,235,301	9,090,558	<u>49,242,317</u> <u>525,749,639</u>	<u>3,014,124</u> <u>388,178,623</u>	<u>14,650,136</u> <u>354,794,841</u>	2,079,755	8,730,315	2,405,929,981

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS (continued)

							202	22 (continued)			
			Principal								
				Principal	Principal	Principal	Dynamic	Principal		Principal	
		Principal	Principal	Core	Dynamic	Dynamic	Global	Dynamic	Principal	- MPF	Principal
		Age 65	Balanced	Accumulation	Asia Pacific	Global Bond	Equity	Hong Kong	Growth	Conservative	Stable
		Plus Fund	Fund	Fund	Equity Fund	Fund	Fund	Equity Fund	Fund	Fund	Fund
	Notes	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Number of units in issue	7	3,062,413.8591	14,993,845.9879	5,466,431.3087	21,541,257.0472	9,234,135.9833	17,305,792.0672	23,758,608.8359	21,026,958.6325	32,831,661.6295	12,849,304.3519
Net asset value per unit		10.40	16.40	12.07	13.96	9.33	13.87	22.12	18.46	10.80	12.10

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

							202	3					
	Notes	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$	Scheme level HK\$	Total HK\$
Balance brought forward		31,863,995	246,048,753	66,020,698	300,779,251	86,235,301	240,032,827	525,749,639	388,178,623	354,794,841	155,552,168	10,673,885	2,405,929,981
Contributions received and receivable	8	14,761,870	27,540,037	30,129,338	30,324,691	20,261,116	44,815,198	83,752,947	39,954,165	99,168,130	20,243,139	(441,025)	410,509,606
Withdrawals paid and payable	9	(12,413,872)	(36,078,280)	(22,225,978)	(39,230,958)	(18,970,551)	(48,330,324)	(85,901,453)	(48,815,396)	(148,818,586)	(22,594,171)	-	(483,379,569)
Increase/(decrease) in net assets available for benefits and total profit or loss and other comprehensive income Balance carried forward	-	2,534,905 36,746,898	<u>15,173,802</u> <u>252,684,312</u>	10,072,082 83,996,140	<u>23,289,954</u> <u>315,162,938</u>	<u>3,798,482</u> <u>91,324,348</u>	44,769,856	(72,691,270)	28,155,151 407,472,543	<u>11,660,582</u> <u>316,804,967</u>	7,408,484	10,232,860	74,172,028
	_						202 Principal	2					
	Notes	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Dynamic Global Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$	Scheme level HK\$	Total HK\$
Balance brought forward		33,288,682	309,452,823	70,804,789	402,644,269	104,165,315	311,656,576	656,163,711	494,754,690	366,602,926	193,625,304	11,058,667	2,954,217,752
Contributions received and receivable	8	12,800,734	23,700,722	24,001,059	30,804,821	21,502,682	42,149,865	102,300,599	38,933,468	97,916,048	20,422,863	(384,782)	414,148,079
Withdrawals paid and payable	9	(9,084,044)	(29,625,399)	(16,771,364)	(45,023,914)	(20,553,257)	(46,568,779)	(94,659,654)	(47,330,253)	(110,004,597)	(28,175,879)	-	(447,797,140)
(Decrease)/increase in net assets available for benefits and total													
profit or loss and other comprehensive income	-	(5,141,377)	(57,479,393)	(12,013,786)	(87,645,925)	(18,879,439)	(67,204,835)	(138,055,017)	(98,179,282)	280,464	(30,320,120)		(514,638,710)

STATEMENT OF CASH FLOWS

	Note	2023 HK\$	2022 HK\$
Cash flows from operating activities		15 204	
Other income received Operating expenses paid		15,304 (53,336,319)	(23,154,659)
Net cash flows used in		(52 221 015)	(22.154.(50))
operating activities		(53,321,015)	(23,154,659)
Cash flows from investing activities			
Purchase of investment Proceeds on sale of investment		(450,821,265) 571,041,520	(523,791,237) 585,462,712
Net cash flows generated from		571,041,520	565,462,712
investing activities		120,220,255	61,671,475
Cash flows from financing activities			
Contributions received		434,044,688	385,717,139
Withdrawals paid		(504,131,383)	(421,770,997)
Net cash flows used in financing activities		(70,086,695)	(36,053,858)
Not (doowoogo)/ingroogo in cash and			
Net (decrease)/increase in cash and cash equivalents		(3,187,455)	2,462,958
Cash and cash equivalents			
at beginning of the year		8,730,315	6,267,357
Cash and cash equivalents			
at end of year		5,542,860	8,730,315
Analysis of balances of cash			
and cash equivalents: Bank balances	6	5,542,860	8,730,315

NOTES TO FINANCIAL STATEMENTS

31 December 2023

1. THE SCHEME

Principal MPF - Simple Plan ("the Scheme") is a mandatory provident fund scheme constituted by a trust deed dated 5 January 2005 (the "Master Trust Deed") and is governed by the laws of the Hong Kong Special Administrative Region of the People's Republic of China. The Scheme is designed to provide retirement benefits to the members under the Scheme.

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

The Scheme had ten Constituent Funds as at 31 December 2023:

- Principal Age 65 Plus Fund
- Principal Balanced Fund
- Principal Core Accumulation Fund
- Principal Dynamic Asia Pacific Equity Fund
- Principal Dynamic Global Bond Fund
- Principal Dynamic Global Equity Fund
- Principal Dynamic Hong Kong Equity Fund
- Principal Growth Fund
- Principal MPF Conservative Fund
- Principal Stable Fund

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.1 BASIS OF PREPARATION

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Scheme has adopted the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKAS 1 and	Disclosure of Accounting Policies
HKFRS Practice Statement 2	
Amendments to HKAS 8	Definition of Accounting Estimates

The nature and the impact of the revised HKFRSs are described below:

(a) Amendments to HKAS 1 and HKFRS Practice Statement 2 Disclosure of Accounting Policies

• Amendments to HKAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 Making Materiality Judgements provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Scheme has disclosed the material accounting policy information in note 2.4 to the financial statements. The amendments did not have any impact on the measurement, recognition or presentation of any item in the Scheme's financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

The nature and the impact of the revised HKFRSs are described below: (continued)

- (b) Amendments to HKAS 8 Definition of Accounting Estimates
 - Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. Since the Scheme's approach and policy align with the amendments, the amendments had no impact on the Scheme's financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 10	Sale or Contribution of Assets between an Investor and its
and HKAS 28	Associate or Joint Venture ³
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback ¹
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current (the "2020 Amendments") ^{1, 4}
Amendments to HKAS 1	Non-current Liabilities with Covenants (the "2022 Amendments") ^{1,4}
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements ¹
Amendments to HKAS 21	Lack of Exchangeability ²

¹ Effective for annual periods beginning on or after 1 January 2024

² Effective for annual periods beginning on or after 1 January 2025

³ No mandatory effective date yet determined but available for adoption

⁴ As a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Interpretation 5 Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause was revised to align the corresponding wording with no change in conclusion

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

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

The 2020 Amendments clarify the requirements for classifying liabilities as current or non-current, including what is meant by a right to defer settlement and that a right to defer must exist at the end of the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement. The amendments also clarify that a liability can be settled in its own equity instruments, and that only if a conversion option in a convertible liability is itself accounted for as an equity instrument would the terms of a liability not impact its classification. The 2022 Amendments further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. Additional disclosures are required for non-current liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period. The amendments shall be applied retrospectively with early application permitted. An entity that applies the 2020 Amendments early is required to apply simultaneously the 2022 Amendments, and vice versa. The Scheme is currently assessing the impact of the amendments and whether existing loan agreements may require revision. Based on a preliminary assessment, the amendments are not expected to have any significant impact on the Scheme's financial statements.

2.4 MATERIAL ACCOUNTING POLICIES

Fair value measurement

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

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

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

- Level 1 based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Investments and other financial assets

Initial recognition and measurement

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

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

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

The Scheme's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

Purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace are recognised on the trade date, that is, the date that the Scheme commit to purchase or sell the asset.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

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

Financial assets at amortised cost (debt instruments)

The Scheme measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Impairment of financial assets

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

General approach

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

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

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

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for investment contract receivables which apply the simplified approach as detailed below.

- Stage 1 Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Simplified approach

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

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

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

Derecognition of financial assets

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

The Scheme's financial liabilities include amounts pending for allocation, amounts payable on redemptions, amounts payable to brokers, accrued expenses and other payables.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Financial liabilities (continued) Subsequent measurement

Financial liabilities at amortised cost (Loans and borrowings)

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash on hand and at banks, and short-term highly liquid deposits with a maturity of generally within three months that are readily convertible into known amounts of cash, subject to an insignificant risk of changes in value and held for the purpose of meeting short-term cash commitments.

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand and at banks, and short-term deposits as defined above, less bank overdrafts which are repayable on demand and form an integral part of the Scheme's cash management.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Scheme and when the revenue can be measured reliably, on the following bases:

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenue is recognised when it is probable that the economic benefits will flow to the Scheme and when the revenue can be measured reliably, on the following bases: (continued)

- (b) Distribution income is recognised when the Scheme's right to receive payment has been established. Distribution income relating to exchange-traded equity investments is recognised in profit or loss as distribution income when declared. Distribution income from private equity investments and other investment funds are recognised in profit or loss as distribution income when declared.
- (c) Realised and unrealised gains and losses on investments at fair value through profit or loss are dealt with in profit or loss in the year in which they arise.

Expenses

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

Foreign currencies

Transactions in foreign currencies are translated into the functional currency of the Scheme using the exchange rates prevailing at the dates of the transactions. Exchange differences arising from the settlement of such transactions and from the retranslation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

Related parties

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

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

or

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Units in issue

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

3. GAINS AND LOSSES ON INVESTMENTS

	2023										
	Principal	Principal	Principal	Principal	Principal	Principal	Principal	Principal	Principal	Principal	
	Age 65	Balanced	Core	Dynamic	Dynamic	Dynamic	Dynamic	Growth	- MPF	Stable	
	Plus Fund	Fund	Accumulation	Asia Pacific	Global Bond	Global Equity	Hong Kong	Fund	Conservative	Fund	
			Fund	Equity Fund	Fund	Fund	Fund		Fund		Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Realised (losses)/gains Net change in unrealised	(121,015)	6,149,822	1,284,093	1,105,184	(1,920,541)	4,068,203	(20,509,398)	10,738,835	7,016,135	937,346	8,748,664
gains/(losses)	2,973,862	13,147,724	9,410,108	27,435,120	7,030,760	45,202,819	(43,998,261)	23,965,456	8,608,941	9,031,427	102,807,956
Net gains/(losses) on investments	2,852,847	19,297,546	10,694,201	28,540,304	5,110,219	49,271,022	(64,507,659)	34,704,291	15,625,076	9,968,773	111,556,620

	2022										
	Principal	Principal	Principal	Principal	Principal	Principal	Principal	Principal	Principal	Principal	
	Age 65	Balanced	Core	Dynamic	Dynamic	Dynamic	Dynamic	Growth	- MPF	Stable	
	Plus Fund	Fund	Accumulation	Asia Pacific	Global Bond	Global Equity	Hong Kong	Fund	Conservative	Fund	
			Fund	Equity Fund	Fund	Fund	Fund		Fund		Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Realised (losses)/gains Net change in unrealised	(197,082)	5,311,546	907,851	3,417,525	(1,523,037)	2,220,127	(18,764,638)	10,954,048	2,478,333	1,808,423	6,613,096
gains/(losses)	(4,662,051)	(58,590,272)	(12,349,037)	(85,381,718)	(15,999,831)	(64,993,947)	(110,342,249)	(102,554,605)	2,269,813	(29,460,356)	(482,064,253)
Net (losses)/gains									i		
on investments	(4,859,133)	(53,278,726)	(11,441,186)	(81,964,193)	(17,522,868)	(62,773,820)	(129,106,887)	(91,600,557)	4,748,146	(27,651,933)	(475,451,157)

NOTES TO FINANCIAL STATEMENTS

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4. RELATED PARTY TRANSACTIONS

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

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

	2023							
	Sponse	or fee	Trustee and administrator fee	Investment management fee	Maximum aggregate			
	Current	Maximum	Current	Current	management fee			
Principal - MPF Conservative Fund	0.25	1.50	0.61	0.11 - 0.13	4.00			
Principal Growth Fund	0.25	1.50	0.99	0.33 - 0.35	4.00			
Principal Balanced Fund	0.25	1.50	0.99	0.33 - 0.35	4.00			
Principal Stable Fund	0.25	1.50	0.99	0.33 - 0.35	4.00			
Principal Dynamic Global Equity Fund	0.25	1.50	1.00	0 - 0.50	2.00			
Principal Dynamic Asia Pacific Equity Fund	0.25	1.50	1.00	0 - 0.50	2.00			
Principal Dynamic Global Bond Fund	0.25	1.50	0.77	0 - 0.47	2.00			
Principal Dynamic Hong Kong Equity Fund	0.25	1.50	0.86	0 - 0.48	2.00			
Principal Core Accumulation Fund	Nil	N/A	0.50	0.25	N/A			
Principal Age 65 Plus Fund	Nil	N/A	0.50	0.25	N/A			

Constituent Fund Level (% p.a. of net assets value)

Constituent Fund Level (% p.a. of net assets value)

	2022							
	Sponse	or fee	Trustee and administrator fee	Investment management fee	Maximum aggregate			
	Current	Maximum	Current	Current	management fee			
Principal - MPF Conservative Fund	0.25	1.50	0.61	0.11 - 0.13	4.00			
Principal Growth Fund	0.25	1.50	0.99	0.33 - 0.35	4.00			
Principal Balanced Fund	0.25	1.50	0.99	0.33 - 0.35	4.00			
Principal Stable Fund	0.25	1.50	0.99	0.33 - 0.35	4.00			
Principal Dynamic Global Equity Fund	0.25	1.50	1.00	0 - 0.50	2.00			
Principal Dynamic Asia Pacific Equity Fund	0.25	1.50	1.00	0 - 0.50	2.00			
Principal Dynamic Global Bond Fund	0.25	1.50	0.77	0 - 0.47	2.00			
Principal Dynamic Hong Kong Equity Fund	0.25	1.50	0.86	0 - 0.48	2.00			
Principal Core Accumulation Fund	Nil	N/A	0.50	0.25	N/A			
Principal Age 65 Plus Fund	Nil	N/A	0.50	0.25	N/A			

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

4. RELATED PARTY TRANSACTIONS (continued)

- (b) The Trustee collects contributions in accordance with the rules of the Scheme and invests the contributions in the Constituent Funds. The trustee is also the scheme administrator handling the daily administration work of the Scheme. Including to keep records of the Scheme, handling requests for transfers or withdrawal of accrued benefits and providing other customer services to enrolled employers and scheme members.
- (c) All investments held by each Constituent Fund were managed by the Investment Manager.
- (d) Operating expenses are paid by the Administrator and then recharged to the Constituent Funds.
- (e) The Sponsor of the Scheme provides product design advice as well as ancillary and support services to the Trustee as may be agreed between them from time to time, including but not limited to business development, marketing, sponsoring of the Scheme and product development.
- (f) For the years ended 31 December 2023 and 2022, the Constituent Funds did not have any transactions with any of the Investment Manager's associates or delegates.
- (g) The transactions with related parties as stated above are within the definition of transactions with associates in accordance with the MPF Ordinance and MPF Guideline II.4 Annex C I (D) 2.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

4. RELATED PARTY TRANSACTIONS (continued)

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

	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$
For the year ended 31 December 2023	i									
Investment management fee	84,277	836,456	184,684	1,228,054	340,891	1,043,779	2,368,202	1,336,207	423,150	520,584
Sponsor fee	-	633,678	-	767,534	218,520	652,362	1,260,487	1,012,278	961,704	394,381
Trustee and										
administrator fee	168,554	2,509,367	369,369	3,070,136	673,041	2,609,447	4,336,074	4,008,620	2,346,558	1,561,751
As at 31 December 2023										
Investment management fee payable	7,686	69,488	17,430	103.866	29,860	89,405	175,991	111.921	33,277	44,308
Sponsor fee payable	-	52,642	-	64,916	19,141	58,520	93,672	84,789	75,630	33,567
Trustee and										
administrator fee payable	15,372	208,435	34,860	259,932	58,944	233,953	322,231	335,764	184,538	132,924
:										

NOTES TO FINANCIAL STATEMENTS

31 December 2023

4. RELATED PARTY TRANSACTIONS (continued)

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

	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$
For the year ended 31 December 2022										
Investment management fee	81,914	862,549	162,746	1,346,302	362,502	1,090,480	2,589,306	1,352,366	489,191	546,574
Sponsor fee	-	653,446	-	841,439	232,373	651,441	1,378,170	1,024,520	1,111,798	414,072
Trustee and										
administrator fee	163,828	2,587,646	325,492	3,365,756	715,710	2,605,761	4,740,904	4,057,098	2,712,786	1,639,724
As at 31 December 2022										
Investment management fee payable	6,829	66,944	13,669	100,615	27,846	79,679	199,648	105,450	108,375	42,599
Sponsor fee payable	-	50,715	-	62,884	17,850	49,800	106,263	79,886	246,307	32,272
Trustee and										
administrator fee payable	13,657	200,831	27,338	251,537	54,979	199,198	365,546	316,349	600,989	127,796
=										

NOTES TO FINANCIAL STATEMENTS

31 December 2023

5. INVESTMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

						2023					
	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$	Total HK\$
Collective investment scheme Unit trust	36,890,626	252,289,970	83,431,119	315,398,000	90,365,961	279,597,370	451,080,913	407,627,637	315,769,178	160,514,465	2,392,965,239
						2022					
	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$	Total HK\$
Collective investment scheme Unit trust	31,935,070	246,236,270	66,395,187	300,419,085	83,213,241	238,250,358	524,865,084	388,518,011	354,716,721	155,716,225	2,390,265,252

NOTES TO FINANCIAL STATEMENTS

31 December 2023

6. CASH AND CASH EQUIVALENTS

					202	23					
					Principal						
	D · · 1	Principal	Principal	Principal	Dynamic	Principal	D · · · 1	Principal	D · · 1		
	Principal	Principal Core	Dynamic		Global	Dynamic	Principal	- MPF	Principal	C 1	
	Age 65	Balanced Accumulation		Global Bond	Equity	Hong Kong	Growth		Stable	Scheme	
	Plus Fund	Fund Fund	Equity Fund	Fund	Fund	Equity Fund	Fund	Fund	Fund	level	Total
	HK\$	HK\$ HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Cash at banks			-	-						5,542,860	5,542,860
					202	22					
					Principal						
		Principal	Principal	Principal	Dynamic	Principal		Principal			
	Principal	Principal Core	Dynamic	Dynamic	Global	Dynamic	Principal	- MPF	Principal		
	Age 65	Balanced Accumulation		Global Bond	Equity	Hong Kong	Growth		Stable	Scheme	
	Plus Fund	Fund Fund	Equity Fund	Fund	Fund	Equity Fund	Fund	Fund	Fund	level	Total
	HK\$	HK\$ HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Cash at banks			-	-		-	-	-	-	8,730,315	8,730,315

NOTES TO FINANCIAL STATEMENTS

31 December 2023

7. UNITS IN ISSUE

	2023											
	Principal Age 65 Plus Fund	Principal Balanced Fund	Principal Core Accumulation Fund	Principal Dynamic Asia Pacific Equity Fund	Principal Dynamic Global Bond Fund	Principal Dynamic Global Equity Fund	Principal Dynamic Hong Kong Equity Fund	Principal Growth Fund	Principal - MPF Conservative Fund	Principal Stable Fund		
Balance at 1 January 2023 Issued during the year Redeemed during the year	3,062,413.8591 1,377,604.7700 (1,151,584.3915)	1,608,847.9856	2,316,511.8059	· · ·	2,161,235.2710	17,305,792.0672 2,922,694.8057 (3,171,399.0261)	3,904,440.1009	21,026,958.6325 2,064,782.3664 (2,519,835.0820)	32,831,661.6295 9,052,264.4321 (13,526,726.3031)	12,849,304.3519 1,635,054.6016 (1,824,866.5155)		
Balance at 31 December 2023	3,288,434.2376	14,480,228.5357	6,072,505.0636	20,906,273.0963	9,403,599.0686	17,057,087.8468	23,687,124.4323	20,571,905.9169	28,357,199.7585	12,659,492.4380		
					2022							
	Principal Age 65 Plus Fund	Principal Balanced Fund	Principal Core Accumulation Fund	Principal Dynamic Asia Pacific Equity Fund	Principal Dynamic Global Bond Fund	Principal Dynamic Global Equity Fund	Principal Dynamic Hong Kong Equity Fund	Principal Growth Fund	Principal - MPF Conservative Fund	Principal Stable Fund		
Balance at 1 January 2022 Issued during the year		1,388,928.2912	1,878,606.7434	22,490,521.8497 2,011,175.3119		· · ·	4,468,254.8670	21,449,894.7962 2,001,344.1765	33,951,203.8977 9,067,626.9129	13,432,820.6115 1,609,254.1124 (2,102,770,2720)		
Redeemed during the year	(848,019.1882)	(1,743,042.0547)	(1,297,302.7801)	(2,960,440.1144)	(2,054,504.4177)	(3,120,449.8640)	(4,068,708.8795)	(2,424,280.3402)	(10,187,169.1811)	(2,192,770.3720)		

NOTES TO FINANCIAL STATEMENTS

31 December 2023

8. CONTRIBUTIONS RECEIVED AND RECEIVABLE

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

	2023 HK\$	2022 HK\$
From employers		
- mandatory	62,035,530	64,995,622
- additional voluntary	28,584,965	28,487,779
From members		
- mandatory	45,207,210	47,210,010
- additional voluntary	3,442,144	3,522,679
	139,269,849	144,216,090
Transfer in from		
- other schemes	17,526,104	12,097,590
- same scheme	104,347,135	79,344,712
	121,873,239	91,442,302
Switching in	146,178,692	175,976,518
Others	3,187,826	2,513,169
Proceeds on issue of units	410,509,606	414,148,079

9. WITHDRAWALS PAID AND PAYABLE

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

	2023 HK\$	2022 HK\$
Benefits	293,623,364	268,253,234
Forfeitures	42,975,686	3,411,425
Switching out	146,178,779	175,976,518
Others	601,740	155,963
Payments on redemption of units	483,379,569	447,797,140

NOTES TO FINANCIAL STATEMENTS

31 December 2023

10. TAXATION

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

11. SOFT COMMISSION ARRANGEMENTS

Neither the Trustee, the Administrator, the Investment Manager nor any of its connected persons may retain cash or other rebates from a broker or dealer in consideration of directing transactions in the investments of the Constituent Funds to the broker or dealer, save that goods and services may be retained within the limitations set out by the Hong Kong Securities and Futures Commission. Those permissible goods and services must be, among other things, of demonstrable benefit to the members and consistent with best execution standards. They may include research and advisory services, portfolio analysis, data and quotation services etc. but may not include, among other things, travel, accommodation, entertainment or direct money payments. The Trustee, the Administrator and the Investment Manager did not enter into any soft commission arrangements for the years ended 31 December 2023 and 2022.

12. FEES, CHARGES AND EXPENSES

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

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

13. MARKETING EXPENSES

There were no advertising expenses, promotional expenses, commissions or brokerage fees payable to the MPF intermediaries of the Scheme deducted from the Constituent Funds during the years ended 31 December 2023 and 2022.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

14. PAYMENTS CHARGED TO DEFAULT INVESTMENT STRATEGY CONSTITUENT FUNDS

Year ended 31 December 2023

	Principal Age	e 65 Plus Fund	Principal Core Accumulation Fund			
	HK\$	% of net assets#	HK\$	% of net assets#		
Payments for out-of-pocket expenses						
- Auditor's fees	992		4,104			
- Bank charges	-		-			
- Legal and professional fees	13,812		8,565			
- Miscellaneous expenses	33,937		28,109			
 Printing and postage expenses 	16,481		27,580			
	65,222	0.19	68,358	0.09		
Payments for service						
- Investment management fee	84,277		184,684			
- Trustee and administrator fee	168,554		369,369			
	252,831		554,053			
Other payments - Legal and professional fees (non-recurring)	_		_			
(6)	318,053		622,411			

Year ended 31 December 2022

	Principal Ag	e 65 Plus Fund	Principal Core Accumulation Fund			
	HK\$	% of net assets#	HK\$	% of net assets#		
Payments for out-of-pocket expenses						
- Auditor's fees	327		583			
- Bank charges	-		-			
 Legal and professional fees 	455		751			
 Miscellaneous expenses 	33,368		64,313			
 Printing and postage expenses 	2,352		18,715			
	36,502	0.11	84,362	0.13		
Payments for service						
- Investment management fee	81,914		162,746			
- Trustee and administrator fee	163,828		325,492			
	245,742		488,238			
Other payments - Legal and professional fees (non-recurring)	-		-			
	282,244		572,600			

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

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

The Scheme had no bank loans, overdrafts or other borrowings as at 31 December 2023 and 2022.

16. COMMITMENTS

The Scheme had no commitments as at 31 December 2023 and 2022.

17. CONTINGENT LIABILITIES

The Scheme had no contingent liabilities as at 31 December 2023 and 2022.

18. NEGOTIABILITY OF ASSETS

At 31 December 2023 and 2022, there was no statutory or contractual requirement restricting the negotiability of the assets of the Scheme.

19. FINANCIAL INSTRUMENTS BY CATEGORY

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

-		
Final	ncial	assets

		2023			2022	
	At fair value through profit or loss HK\$	At amortised cost HK\$	Total HK\$	At fair value through profit or loss HK\$	At amortised cost HK\$	Total HK\$
Investments measured at fair value						
through profit or loss	2,392,965,239	_	2,392,965,239	2,390,265,252	-	2,390,265,252
Contributions receivable		10,232,860	10,232,860	2,390,203,232	10,673,885	10,673,885
Subscriptions in transit	-	11,390,174	11,390,174	-	37,902,186	37,902,186
Accounts receivable	-	9,129,737	9,129,737	-	58,382,999	58,382,999
Cash and cash equivalents	-	5,542,860	5,542,860	-	8,730,315	8,730,315
•	2,392,965,239	36,295,631	2,429,260,870	2,390,265,252	115,689,385	2,505,954,637
Financial liabilities						
			2023			2022
			At amortised			At amortised
			cost			cost
			HK\$			HK\$
Amounts pending for allocation			2,934,363			6,352,318
Amounts payable on redemptions			10,534,044			31,503,792
Amounts payable to brokers			1,453,396			39,343,036
Accrued expenses and other payables			7,107,021			22,825,510
			22,028,824			100,024,656

NOTES TO FINANCIAL STATEMENTS

31 December 2023

20. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

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

For the year ended 31 December 2023 and 2022, there was no transfer of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

At 31 December 2023 and 31 December 2021, all financial instruments of the Scheme carried at fair value were investments in unit trust which fall into Level 2 of the fair value hierarchy.

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Market risk

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

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

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

Currency risk

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

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

Interest rate risk

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

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

The Constituent Funds are not exposed to interest rate risk as the Constituent Funds invest only in unit trusts and there is no cash at bank in the Constituent Funds.

Other price risk

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Market risk (continued)

Other price risk (continued)

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Market risk (continued)

Other price risk sensitivity analysis

As at year end, the overall market exposures of each Constituent Fund were as follows. An increase in prices of the Investment Funds at the year end would have increased the NAV of the respective Constituent Funds and the change in net assets available for benefits by the amounts shown below. An equal change in the opposite direction would have decreased the NAV by an equal but opposite amount. The analysis is performed on the same basis for 2022.

					As at 31 Dece	ember 2023				
	Principal	Principal	Principal	Principal	Principal	Principal	Principal	Principal	Principal	Principal
	Age 65	Balanced	Core	Dynamic	Dynamic	Dynamic	Dynamic	Growth	- MPF	Stable
	Plus Fund	Fund	Accumulation	Asia Pacific	Global Bond	Global Equity	Hong Kong	Fund	Conservative	Fund
			Fund	Equity Fund	Fund	Fund	Equity Fund		Fund	
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Overall market exposure	36,890,626	252,289,970	83,431,119	315,398,000	90,365,961	279,597,370	451,080,913	407,627,637	315,769,178	160,514,465
% change in prices	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Change in NAV	3,689,063	25,228,997	8,343,112	31,539,800	9,036,596	27,959,737	45,108,091	40,762,764	31,576,918	16,051,447
					As at 31 Dece					
	Principal	Principal	Principal	Principal	Principal	Principal	Principal	Principal	Principal	Principal
	Age 65	Balanced	Core	Dynamic	Dynamic	Dynamic	Dynamic	Growth	- MPF	Stable
	Plus Fund	Fund	Accumulation	Asia Pacific	Global Bond	Global Equity	Hong Kong	Fund	Conservative	Fund
	i ius i unu	1 und	Fund	Equity Fund	Fund	Fund	Equity Fund	i una	Fund	1 und
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Overall market exposure	31,935,070	246,236,270	66,395,187	300,419,085	83,213,241	238,250,358	524,865,084	388,518,011	354,716,721	155,716,225
% change in prices	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Change in NAV			6 630 510				FR 10 C F 00			
8	3,193,507	24,623,627	6,639,519	30,041,909	8,321,324	23,825,036	52,486,508	38,851,801	35,471,672	15,571,623

NOTES TO FINANCIAL STATEMENTS

31 December 2023

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Credit risk

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

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

Each Constituent Fund of the Scheme is a feeder fund and invests in unit trusts managed by appointed investment managers with high credit ratings.

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

Financial assets subject to HKFRS 9's impairment requirements

The Scheme's financial assets subject to the ECL model within HKFRS 9 are only short-term trade receivables, cash and cash equivalents and others. At 31 December 2023, the total of short-term trade receivables, cash and cash equivalents and others was HK\$36,295,631 on which no loss allowance had been provided (31 December 2022: total of HK\$115,689,385 on which no loss had been provided). There is not considered to be any concentration of credit risk within these assets. No assets are considered impaired and no amounts have been written off in the period.

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

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

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

Financial assets not subject to HKFRS 9's impairment requirements

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Liquidity risk

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

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

Constituent Funds

At 31 December 2023

	Principal Age 65 Plus Fund HK\$	Principal Balanced A Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Hong Kong Fund HK\$	Principal Growth Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$	Total HK\$
Non-derivative financial liabili	ities										
Less than 1 month											
Amounts payable on redemptions		1,230,435	79,069	540,106	1,808,341	1,264,842	822,294	1,554,297	2,499,408	416,621	10,295,906
Amounts payable to brokers	130,519	13,926	18,073	33,534	98,451	180,340	595,338	21,090	273,135	88,990	1,453,396
Accrued expenses and other payab		402,172	556,753	529,075	134,189	434,163	907,302	700,728	552,449	295,085	4,736,662
		402,172	550,755	529,075	154,165	454,105	507,502	700,728	552,449	295,085	4,750,002
Repayable on dem Net assets availabl											
for benefits	36,746,898	252,684,312	83,996,140	315,162,938	91,324,348	281,287,557	450,909,863	407,472,543	316,804,967	160,609,620	2,396,999,186
	37,182,656	254,330,845	84,650,035	316,265,653	93,365,329	283,166,902	453,234,797	409,748,658	320,129,959	161,410,316	2,413,485,150

At 31 December 2022

	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Hong Kong Fund HK\$	Principal Growth Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$	Total HK\$
Non-derivative financial liabil	ities										
Less than 1 month											
Amounts payable on redemptions	1,120,169	245,326	289,184	1,045,579	1,440,422	3,697,715	16,494,149	195,178	5,840,001	910,497	31,278,220
Amounts payable to brokers	55,408	26,340	1,724,250	21,676	1,320,637	3,090,595	27,957,898	37,349	5,095,859	13,024	39,343,036
Accrued expenses and other payal		1,787,748	772,510	2,354,271	703,900	2,302,248	4,790,270	2,781,597	3,714,276	1,156,234	20,673,085
Repayable on den											
Net assets availab for benefits	le 31,863,995	246,048,753	66,020,698	300,779,251	86,235,301	240,032,827	525,749,639	388,178,623	354,794,841	155,552,168	2,395,256,096
	33,349,603	248,108,167	68,806,642	304,200,777	89,700,260	249,123,385	574,991,956	391,192,747	369,444,977	157,631,923	2,486,550,437

NOTES TO FINANCIAL STATEMENTS

31 December 2023

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Liquidity risk (continued)

The Scheme

At 31 December 2023	Repayable <u>on demand</u> HK\$	Less than <u>1 month</u> HK\$
Amounts pending for allocation Amounts payable on redemptions Accounts payable and accruals Net assets available for benefits	10,232,860	2,934,363 238,138 2,370,359
At 31 December 2022	Repayable on demand HK\$	$\frac{1 \text{ month}}{\text{HK}}$
Amounts pending for allocation Amounts payable on redemptions Accounts payable and accruals Net assets available for benefits	10,673,885	6,352,318 225,572 2,152,425 8,730,315

(d) Specific instruments

Derivatives

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

22. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Trustee on 25 June 2024.

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

We have audited the financial statements of Principal MPF - Simple Plan (the "Scheme") for the year ended 31 December 2023 in accordance with Hong Kong Standards on Auditing and with reference to Practice Note 860.1(Revised), *The Audit of Retirement Schemes* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and have issued an unqualified auditor's report thereon dated 25 June 2024.

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

Trustee's Responsibility

The General Regulation requires the Trustee to ensure that:

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

Our Independence and Quality Management

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

Our firm applies Hong Kong Standard on Quality Management 1 which requires our firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.



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

Auditor's Responsibility

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

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

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

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

Opinion

Based on the foregoing:

- 1. in our opinion:
 - (a) proper accounting and other records have been kept during the year ended 31 December 2023 in respect of the constituent funds of the Scheme, the Scheme assets and all financial transactions entered into in relation to the Scheme; and
 - (b) the requirements specified in the guidelines made by the Mandatory Provident Fund Schemes Authority under section 28 of the MPFSO with respect to forbidden investment practices and the requirements of sections 37(2), 51 and 52 and Part X of, and Schedule 1 to, the General Regulation have been complied with, in all material respects, as at 31 December 2023, 30 June 2023 and 31 March 2023; and
 - (c) the requirements specified in the MPFSO under sections 34DB(1)(a), (b), (c) and (d), 34DC(1) and 34DD(1) and (4)(a) with respect to the investment of accrued benefits and control of payment for services relating to Principal Core Accumulation Fund and Principal Age 65 Plus Fund have been complied with, in all material respects, as at 31 December 2023, 30 June 2023 and 31 March 2023; and
 - (d) the requirements specified in section 34DD(4)(b) of the MPFSO with respect to the controls of out-of-pocket expenses of the Principal Core Accumulation Fund and Principal Age 65 Plus Fund have been complied with, in all material respects, as at 31 December 2023.
- 2. as at 31 December 2023, the Scheme assets were not subject to any encumbrance, otherwise than as permitted by the General Regulation.



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

Other Matter

The requirements specified in the MPFSO under sections 34DI(1) and (2) and 34DK(2) with respect to the transfer of accrued benefits to an account and specified notice, and 34DJ(2), (3), (4) and (5) with respect to locating scheme members relating to Principal Core Accumulation Fund and Principal Age 65 Plus Fund are not applicable to the Trustee during the year ended 31 December 2023 as the Trustee has completed the relevant transitional provisions. Accordingly, there is no reporting on these sections.

Intended Users and Purpose

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

Gran \times

Certified Public Accountants Hong Kong 25 June 2024