

Annual Report and Audited Financial Statements

PRINCIPAL MPF - SMART PLAN

31 December 2023



PRINCIPAL MPF - SMART PLAN

CONTENTS

	Pages
DIRECTORY OF PARTIES	1
MANAGER'S REPORT	2 - 4
INVESTMENT REPORT	5 - 63
SCHEME REPORT	64 - 68
INDEPENDENT AUDITOR'S REPORT	69 - 71
AUDITED FINANCIAL STATEMENTS	
Statement of profit or loss and other comprehensive income	72 - 73
Statement of net assets available for benefits	74 - 77
Statement of changes in net assets available for benefits	78 - 79
Statement of cash flows	80
Notes to financial statements	81 - 112
INDEPENDENT AUDITOR'S ASSURANCE REPORT	113 - 115

PRINCIPAL MPF - SMART PLAN

DIRECTORY OF PARTIES

Trustee and Custodian

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

Sponsor

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

Administrator

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

Investment Manager of all Constituent Funds

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

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.

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.

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



Hong Kong
25 June 2024

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT

Investment portfolio

<i>Constituent Funds</i>	2023			
	<i>* Units</i>	<i>Cost HK\$</i>	<i>Fair value HK\$</i>	<i>% of net asset value</i>
Principal Age 65 Plus Fund				
– Holdings in Principal Unit Trust Umbrella Fund				
– Principal Age 65 Plus Fund	28,765,764	337,380,200	345,496,964	99.58
Principal Balanced Fund				
– Holdings in Principal MPF Fund				
– Principal MPF Balanced Fund - Class M	11,263,847	1,514,663,880	1,799,962,673	100.02
Principal Cash Fund				
– Holdings in Principal MPF Fund				
– Principal MPF Cash Fund - Class M	4,328,043	498,065,506	524,082,752	99.42
Principal Core Accumulation Fund				
– Holdings in Principal Unit Trust Umbrella Fund				
– Principal Core Accumulation Fund	50,322,731	675,846,514	754,060,959	99.46
Principal Dynamic Asian Bond Fund				
– Holdings in JPMorgan Savings and Retirement (SAR) series				
– JPMorgan Asian Bond – Class B	3,834,279	48,379,332	48,005,170	27.60
– Holdings in Principal Unit Trust Umbrella Fund				
– Principal Asian Bond Fund	12,694,498	123,324,580	123,177,251	70.83
Principal Dynamic Asia Pacific Equity Fund				
– Holdings in Fidelity Global Investment Fund				
– Fidelity Asia Pacific Equity Fund (MPF) - Class B	37,717,946	648,377,616	686,466,625	86.00
– Holdings in Schroder MPF Umbrella Fund				
– Schroder MPF Asian Fund - Class B	1,953,367	112,210,294	111,322,392	13.95
Principal Dynamic Global Bond Fund				
– Holdings in Fidelity Global Investment Fund				
– Fidelity World Bond Fund - Class B	24,750,266	313,215,306	300,468,224	77.86
– Holdings in Principal Unit Trust Umbrella Fund				
– Principal International Bond Fund	3,536,876	83,124,452	80,972,529	20.98
Principal Dynamic Global Equity Fund				
– Holdings in Fidelity Global Investment Fund				
– Fidelity Global Equity Fund - Class B	35,370,769	779,456,394	981,892,561	34.55
– Holdings in Principal Unit Trust Umbrella Fund				
– Principal International Equity Fund	16,396,238	787,806,073	824,970,144	29.03
– Holdings in Schroder MPF Umbrella Fund				
– Schroder MPF International Fund - Class B	33,033,830	852,691,022	1,033,628,543	36.37

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

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Investment portfolio (continued)

<i>Constituent Funds (continued)</i>	2023			
	<i>* Units</i>	<i>Cost HK\$</i>	<i>Fair value HK\$</i>	<i>% of net asset value</i>
Principal Dynamic Greater China Equity Fund				
– Holdings in JPMorgan Savings and Retirement (SAR) Series				
– JPMorgan Greater China Fund - Class B	5,129,995	1,135,849,146	925,707,546	87.05
– Holdings in Principal Life Style Fund				
– Principal China Equity Fund - Pension Class	10,311,037	204,839,842	139,719,709	13.14
Principal Dynamic Hong Kong Equity Fund				
– Holdings in Principal Life Style Fund				
– Principal Hong Kong Equity Fund - Pension Class	17,933,446	740,521,055	573,059,679	65.43
– Holdings in JPMorgan Savings and Retirement (SAR) Series				
– JPMorgan SAR Hong Kong Fund - Class B	4,861,074	403,161,531	301,046,306	34.37
Principal Growth Fund				
– Holdings in Principal MPF Fund				
– Principal MPF Growth Fund - Class M	14,611,075	2,111,634,360	2,565,412,544	100.03
**Principal Guaranteed Fund				
– Holdings in Principal Guaranteed Fund Policy	-	-	-	-
Principal - Hang Seng Index Tracking Fund				
– Holdings in Tracker Fund of Hong Kong	32,101,470	741,147,647	551,824,269	99.78
Principal - MPF Conservative Fund				
– Holdings in Principal MPF Fund				
– Principal MPF Conservative Fund - Class M	32,395,188	3,700,028,981	3,795,744,140	99.80
Principal Stable Fund				
– Holdings in Principal MPF Fund				
– Principal MPF Stable Fund - Class M	10,131,303	1,238,097,378	1,323,350,762	100.05

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

** This Constituent Fund was terminated on 26 October 2023.

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Statement of movements in portfolio holdings

	<i>% of net assets as at 31 December 2023</i>	<i>% of net assets as at 31 December 2022</i>
<i>Constituent Funds</i>		
Principal Age 65 Plus Fund		
– Holdings in Principal Unit Trust Umbrella Fund		
– Principal Age 65 Plus Fund	99.58	99.48
Principal Balanced Fund		
– Holdings in Principal MPF Fund		
– Principal MPF Balanced Fund - Class M	100.02	99.96
Principal Cash Fund		
– Holdings in Principal MPF Fund		
– Principal MPF Cash Fund - Class M	99.42	99.53
Principal Core Accumulation Fund		
– Holdings in Principal Unit Trust Umbrella Fund		
– Principal Core Accumulation Fund	99.46	99.66
Principal Dynamic Asian Bond Fund		
– Holdings in Principal Unit Trust Umbrella Fund		
– Principal Asian Bond Fund	70.83	70.40
– Holdings in JPMorgan Saving and Retirement (SAR) Series		
– JPMorgan Asian Bond Fund – Class B	27.60	27.84
Principal Dynamic Asia Pacific Equity Fund		
– Holdings in Fidelity Global Investment Fund		
– Fidelity Asia Pacific Equity Fund (MPF) - Class B	86.00	84.98
– Holdings in Schroder MPF Umbrella Fund		
– Schroder MPF Asian Fund - Class B	13.95	14.90
Principal Dynamic Global Bond Fund		
– Holdings in Fidelity Global Investment Fund		
– Fidelity World Bond Fund - Class B	77.86	78.43
– Holdings in Principal Unit Trust Umbrella Fund		
– Principal International Bond Fund	20.98	21.06
Principal Dynamic Global Equity Fund		
– Holdings in Fidelity Global Investment Fund		
– Fidelity Global Equity Fund - Class B	34.55	34.91
– Holdings in Principal Unit Trust Umbrella Fund		
– Principal International Equity Fund	29.03	28.11
– Holdings in Schroder MPF Umbrella Fund		
– Schroder MPF International Fund - Class B	36.37	36.91

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Statement of movements in portfolio holdings (continued)

	<i>% of net assets as at 31 December 2023</i>	<i>% of net assets as at 31 December 2022</i>
<i>Constituent Funds (continued)</i>		
Principal Dynamic Greater China Equity Fund		
– Holdings in JPMorgan Savings and Retirement (SAR) Series		
– JPMorgan Greater China Fund - Class B	87.05	85.68
– Holdings in Principal Life Style Fund		
– Principal China Equity Fund - Pension Class	13.14	13.75
Principal Dynamic Hong Kong Equity Fund		
– Holdings in Principal Life Style Fund		
– Principal Hong Kong Equity Fund - Pension Class	65.43	64.34
– Holdings in JPMorgan Savings and Retirement (SAR) Series		
– JPMorgan SAR Hong Kong Fund - Class B	34.37	35.04
Principal Growth Fund		
– Holdings in Principal MPF Fund		
– Principal MPF Growth Fund - Class M	100.03	99.92
*Principal Guaranteed Fund		
– Holdings in Principal Guaranteed Fund Policy	-	100.00
Principal - Hang Seng Index Tracking Fund		
– Holdings in Tracker Fund of Hong Kong	99.78	98.76
Principal - MPF Conservative Fund		
– Holdings in Principal MPF Fund		
– Principal MPF Conservative Fund - Class M	99.80	99.59
Principal Stable Fund		
– Holdings in Principal MPF Fund		
– Principal MPF Stable Fund - Class M	100.05	99.95

* This Constituent Fund was terminated on 26 October 2023.

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Investment income and performance

	2023														
	Principal Age 65 Plus Fund HKS	Principal Balanced Fund HKS	Principal Cash Fund HKS	Principal Core Accumulation Fund HKS	Principal Dynamic Asian Bond Fund HKS	Principal Dynamic Asia Pacific Equity Fund HKS	Principal Dynamic Global Bond Fund HKS	Principal Dynamic Global Equity Fund HKS	Principal Dynamic Greater China Equity Fund HKS	Principal Dynamic Hong Kong Equity Fund HKS	Principal Growth Fund HKS	*Principal Guaranteed Fund HKS	Principal - Hang Seng Index Tracking Fund HKS	Principal - MPF Conservative Fund HKS	Principal Stable Fund HKS
Investment performance															
Net (losses)/gains of investments - realised	(3,011,081)	41,499,632	6,745,598	8,998,392	(2,472,094)	(1,922,612)	(10,064,195)	41,382,586	(58,376,315)	(58,281,831)	66,080,169	(30,182,755)	(16,006,972)	25,249,464	9,389,303
Net change in unrealised gains/ (losses) of investments	<u>29,467,320</u>	<u>94,991,865</u>	<u>16,866,468</u>	<u>88,439,678</u>	<u>13,067,603</u>	<u>73,204,973</u>	<u>31,132,655</u>	<u>456,612,864</u>	<u>(59,782,240)</u>	<u>(68,026,632)</u>	<u>148,818,759</u>	<u>123,373,938</u>	<u>(66,205,027)</u>	<u>59,916,411</u>	<u>72,451,408</u>

* This Constituent Fund was terminated on 26 October 2023.

	2022														
	Principal Age 65 Plus Fund HKS	Principal Balanced Fund HKS	Principal Cash Fund HKS	Principal Core Accumulation Fund HKS	Principal Dynamic Asian Bond Fund HKS	Principal Dynamic Asia Pacific Equity Fund HKS	Principal Dynamic Global Bond Fund HKS	Principal Dynamic Global Equity Fund HKS	Principal Dynamic Greater China Equity Fund HKS	Principal Dynamic Hong Kong Equity Fund HKS	Principal Growth Fund HKS	Principal Guaranteed Fund HKS	Principal - Hang Seng Index Tracking Fund HKS	Principal - MPF Conservative Fund HKS	Principal Stable Fund HKS
Investment performance															
Net (losses)/gains of investments - realised	(3,494,401)	41,085,506	3,423,786	5,869,422	(4,099,950)	4,819,135	(8,935,096)	23,412,080	(54,823,919)	(60,348,149)	65,266,867	(18,479,158)	(16,689,235)	10,878,487	15,469,578
Net change in unrealised gains/ (losses) of investments	<u>(39,852,281)</u>	<u>(417,301,722)</u>	<u>(2,804,071)</u>	<u>(111,640,033)</u>	<u>(14,604,422)</u>	<u>(201,312,698)</u>	<u>(57,777,715)</u>	<u>(640,785,349)</u>	<u>(395,772,962)</u>	<u>(175,271,591)</u>	<u>(628,889,833)</u>	<u>(285,736,479)</u>	<u>(67,610,065)</u>	<u>8,441,840</u>	<u>(243,074,026)</u>

	2021														
	Principal Age 65 Plus Fund HKS	Principal Balanced Fund HKS	Principal Cash Fund HKS	Principal Core Accumulation Fund HKS	Principal Dynamic Asian Bond Fund HKS	Principal Dynamic Asia Pacific Equity Fund HKS	Principal Dynamic Global Bond Fund HKS	Principal Dynamic Global Equity Fund HKS	Principal Dynamic Greater China Equity Fund HKS	Principal Dynamic Hong Kong Equity Fund HKS	Principal Growth Fund HKS	Principal Guaranteed Fund HKS	Principal - Hang Seng Index Tracking Fund HKS	Principal - MPF Conservative Fund HKS	Principal Stable Fund HKS
Investment performance															
Net gains of investments - realised	11,350,993	141,762,172	10,004,158	36,387,101	2,880,140	68,632,337	9,774,656	556,438,818	233,637,277	76,547,385	223,565,341	42,216,591	5,962,894	21,427,172	75,189,095
Net change in unrealised gains/ (losses) of investments	<u>(4,136,202)</u>	<u>(67,602,173)</u>	<u>(7,543,199)</u>	<u>18,997,095</u>	<u>(5,841,693)</u>	<u>(79,560,506)</u>	<u>(28,285,701)</u>	<u>(83,133,587)</u>	<u>(368,458,045)</u>	<u>(265,826,790)</u>	<u>(69,591,910)</u>	<u>(49,457,074)</u>	<u>(87,376,139)</u>	<u>(17,426,502)</u>	<u>(75,596,859)</u>

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Investment income and performance (continued)

2023														
Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	*Principal Guaranteed Fund HK\$	Principal - Hang Seng Index Tracking Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$
Income derived from investments														
Distribution income	-	-	-	-	-	-	-	-	-	-	-	19,652,056	-	-
Interest income	-	-	-	16	-	-	-	-	-	-	-	15	-	-
Other income	946	12,889	-	2,639	403	2,097	2,172	3,174	28,874	10,459	17,902	-	-	13,763

* This Constituent Fund was terminated on 26 October 2023.

2022														
Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal Guaranteed Fund HK\$	Principal - Hang Seng Index Tracking Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$
Income derived from investments														
Distribution income	-	-	-	-	-	-	-	-	-	-	-	17,477,581	-	-
Interest income	-	-	-	13	-	-	-	-	-	-	-	7	-	-
Other income	-	-	-	-	-	-	-	-	-	-	-	-	-	-

2021														
Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal Guaranteed Fund HK\$	Principal - Hang Seng Index Tracking Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$
Income derived from investments														
Distribution income	-	-	-	732,710	-	-	-	-	-	-	-	13,931,215	-	-
Interest income	-	-	-	20	-	-	-	-	-	-	-	6	-	-
Rebate income	-	-	-	82,948	-	-	-	-	-	-	-	-	-	-

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Performance table

Investment record as at 31 December 2023

	Net asset value per unit HK\$	Total net asset value HK\$
Principal Age 65 Plus Fund	11.29	346,943,636
Principal Balanced Fund	19.29	1,799,573,407
Principal Cash Fund	11.84	527,118,589
Principal Core Accumulation Fund	14.00	758,171,130
Principal Dynamic Asian Bond Fund	9.76	173,906,391
Principal Dynamic Asia Pacific Equity Fund	13.60	798,229,699
Principal Dynamic Global Bond Fund	8.58	385,923,929
Principal Dynamic Global Equity Fund	18.23	2,841,746,187
Principal Dynamic Greater China Equity Fund	16.79	1,063,470,657
Principal Dynamic Hong Kong Equity Fund	8.28	875,892,330
Principal Growth Fund	20.79	2,564,725,132
Principal Guaranteed Fund*	-	-
Principal – Hang Seng Index Tracking Fund	8.66	553,019,574
Principal – MPF Conservative Fund	11.49	3,803,179,033
Principal Stable Fund	16.09	1,322,730,131

Investment record as at 31 December 2022

	Net asset value per unit HK\$	Total net asset value HK\$
Principal Age 65 Plus Fund	10.48	284,698,739
Principal Balanced Fund	18.15	1,740,133,369
Principal Cash Fund	11.42	521,985,076
Principal Core Accumulation Fund	12.22	596,988,746
Principal Dynamic Asian Bond Fund	9.28	162,413,501
Principal Dynamic Asia Pacific Equity Fund	12.60	741,145,410
Principal Dynamic Global Bond Fund	8.22	334,253,029
Principal Dynamic Global Equity Fund	15.33	2,395,489,118
Principal Dynamic Greater China Equity Fund	18.86	1,177,770,058
Principal Dynamic Hong Kong Equity Fund	9.63	1,000,015,132
Principal Growth Fund	19.38	2,404,312,245
Principal Guaranteed Fund*	-	2,711,657,405
Principal - Hang Seng Index Tracking Fund	9.77	571,584,924
Principal - MPF Conservative Fund	11.11	1,481,172,375
Principal Stable Fund	15.36	1,291,481,731

*Please refer to the note for Principal Guaranteed Fund as shown on page 23 to 24.
This Constituent Fund was terminated on 26 October 2023.

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Performance table (continued)

Investment record as at 31 December 2021

	Net asset value per unit HK\$	Total net asset value HK\$
Principal Age 65 Plus Fund	12.22	312,001,607
Principal Balanced Fund	22.30	2,186,285,072
Principal Cash Fund	11.51	531,064,883
Principal Core Accumulation Fund	14.63	654,405,376
Principal Dynamic Asian Bond Fund	10.44	190,328,192
Principal Dynamic Asia Pacific Equity Fund	16.15	957,466,494
Principal Dynamic Global Bond Fund	10.01	412,486,626
Principal Dynamic Global Equity Fund	19.53	3,056,447,572
Principal Dynamic Greater China Equity Fund	26.43	1,631,427,401
Principal Dynamic Hong Kong Equity Fund	12.19	1,174,609,641
Principal Growth Fund	24.22	3,035,788,644
Principal Guaranteed Fund*	-	3,097,326,519
Principal - Hang Seng Index Tracking Fund	11.27	546,342,075
Principal - MPF Conservative Fund	11.10	1,392,228,941
Principal Stable Fund	18.28	1,573,581,186

* Please refer to the note for Principal Guaranteed Fund as shown on page 23 to 24.

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Performance table (continued)

Performance record for the year ended 31 December 2023

	Fund expense ratio (%)#	Highest issue price per unit HK\$	Lowest redemption price per unit HK\$	Net annualised investment return (%)
Principal Age 65 Plus Fund	0.83905	11.34	10.46	7.73
Principal Balanced fund	1.72163	19.67	17.73	6.28
Principal Cash Fund	0.99639	11.84	11.42	3.68
Principal Core Accumulation Fund	0.83933	14.04	12.25	14.57
Principal Dynamic Asian Bond Fund	1.43082	9.77	9.10	5.17
Principal Dynamic Asia Pacific Equity Fund	1.84978	13.78	12.08	7.94
Principal Dynamic Global Bond Fund	1.55613	8.63	7.87	4.38
Principal Dynamic Global Equity Fund	1.80581	18.27	15.30	18.92
Principal Dynamic Greater China Equity Fund	1.47463	21.33	16.16	(10.98)
Principal Dynamic Hong Kong Equity Fund	1.65358	11.15	8.00	(14.02)
Principal Growth Fund	1.73550	21.31	18.97	7.28
Principal Guaranteed Fund**	1.86420	N/A	N/A	0.25
Principal – Hang Seng Index Tracking Fund	1.09081	11.15	8.24	(11.36)
Principal – MPF Conservative Fund	1.00529	11.49	11.12	3.42
Principal Stable Fund	1.70310	16.21	14.99	4.75

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

The net annualised investment return of Principal Guaranteed Fund Policy for a particular period is the average declared return of the Fund for that period. The declared return was 4% per annum for the period from 12 December 2006 to 1 October 2013, 3% per annum for the period from 2 October 2013 to 31 December 2015, 1% per annum for the period from 1 January 2016 to 31 March 2020 and 0.25% per annum for the period from 1 April 2020 onwards.

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

** Please refer to the note for Principal Guaranteed Fund as shown on page 23 to 24. This Constituent Fund was terminated on 26 October 2023.

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

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Performance table (continued)

Performance record for the year ended 31 December 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	0.83	12.20	10.18	(14.24)
Principal Balanced fund	1.71	22.31	16.36	(18.61)
Principal Cash Fund	0.99	11.51	11.35	(0.78)
Principal Core Accumulation Fund	0.82	14.64	11.55	(16.47)
Principal Dynamic Asian Bond Fund	1.41	10.43	8.80	(11.11)
Principal Dynamic Asia Pacific Equity Fund	1.81	16.39	11.45	(21.98)
Principal Dynamic Global Bond Fund	1.53	9.96	7.87	(17.88)
Principal Dynamic Global Equity Fund	1.79	19.62	14.29	(21.51)
Principal Dynamic Greater China Equity Fund	1.43	26.54	14.50	(28.64)
Principal Dynamic Hong Kong Equity Fund	1.64	12.75	7.15	(21.00)
Principal Growth Fund	1.72	24.29	17.11	(19.98)
Principal Guaranteed Fund**	1.82	N/A	N/A	0.25
Principal - Hang Seng Index Tracking Fund	1.03	12.00	7.37	(13.31)
Principal - MPF Conservative Fund	1.31	11.12	11.11	0.09
Principal Stable Fund	1.68	18.21	14.46	(15.97)

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

The net annualised investment return of Principal Guaranteed Fund Policy for a particular period is the average declared return of the Fund for that period. The declared return was 4% per annum for the period from 12 December 2006 to 1 October 2013, 3% per annum for the period from 2 October 2013 to 31 December 2015, 1% per annum for the period from 1 January 2016 to 31 March 2020 and 0.25% per annum for the period from 1 April 2020 onwards.

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

** Please refer to the note for Principal Guaranteed Fund as shown on page 23 to 24.

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

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Performance table (continued)

Performance record for the year ended 31 December 2021

	Highest issue price per unit HK\$	Lowest redemption price per unit HK\$	Net annualised investment return (%)
Principal Age 65 Plus Fund	12.32	11.79	1.66
Principal Balanced fund	23.43	21.76	1.55
Principal Cash Fund	11.57	11.51	(0.52)
Principal Core Accumulation Fund	14.71	13.32	9.34
Principal Dynamic Asian Bond Fund	10.72	10.37	(2.43)
Principal Dynamic Asia Pacific Equity Fund	18.76	15.57	(2.94)
Principal Dynamic Global Bond Fund	10.59	9.96	(5.48)
Principal Dynamic Global Equity Fund	19.77	16.72	15.91
Principal Dynamic Greater China Equity Fund	34.93	25.69	(8.13)
Principal Dynamic Hong Kong Equity Fund	17.26	11.84	(15.64)
Principal Growth Fund	25.53	23.43	3.28
Principal Guaranteed Fund**	N/A	N/A	0.25
Principal - Hang Seng Index Tracking Fund	14.70	10.98	(12.77)
Principal - MPF Conservative Fund	11.10	11.10	-
Principal Stable Fund	18.98	18.15	(1.67)

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

The net annualised investment return of Principal Guaranteed Fund Policy for a particular period is the average declared return of the Fund for that period. The declared return was 4% per annum for the period from 12 December 2006 to 1 October 2013, 3% per annum for the period from 2 October 2013 to 31 December 2015, 1% per annum for the period from 1 January 2016 to 31 March 2020 and 0.25% per annum for the period from 1 April 2020 onwards.

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

** Please refer to the note for Principal Guaranteed Fund as shown on page 23 to 24.

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Performance table (continued)

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	12.02	10.34	8.88
Principal Balanced fund	21.96	15.24	12.96
Principal Cash Fund	11.57	11.44	1.14
Principal Core Accumulation Fund	13.38	9.53	13.01
Principal Dynamic Asian Bond Fund	10.73	9.94	5.52
Principal Dynamic Asia Pacific Equity Fund	16.64	10.21	18.10
Principal Dynamic Global Bond Fund	10.59	9.59	8.62
Principal Dynamic Global Equity Fund	16.85	10.35	13.01
Principal Dynamic Greater China Equity Fund	28.77	15.60	46.94
Principal Dynamic Hong Kong Equity Fund	14.45	9.65	15.97
Principal Growth Fund	23.45	14.90	14.56
Principal Guaranteed Fund**	N/A	N/A	0.44
Principal - Hang Seng Index Tracking Fund	13.45	10.19	(1.45)
Principal - MPF Conservative Fund	11.11	11.04	0.54
Principal Stable Fund	18.59	15.31	8.97

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

The net annualised investment return of Principal Guaranteed Fund Policy for a particular period is the average declared return of the Fund for that period. The declared return was 4% per annum for the period from 12 December 2006 to 1 October 2013, 3% per annum for the period from 2 October 2013 to 31 December 2015, 1% per annum for the period from 1 January 2016 to 31 March 2020 and 0.25% per annum for the period from 1 April 2020 onwards.

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

** Please refer to the note for Principal Guaranteed Fund as shown on page 23 to 24.

PRINCIPAL MPF - SMART PLAN

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	11.06	10.07	9.74
Principal Balanced fund	19.46	16.94	13.42
Principal Cash Fund	11.44	11.29	1.33
Principal Core Accumulation Fund	11.85	10.09	16.42
Principal Dynamic Asian Bond Fund	10.27	9.77	4.00
Principal Dynamic Asia Pacific Equity Fund	14.16	11.85	16.45
Principal Dynamic Global Bond Fund	9.95	9.27	5.18
Principal Dynamic Global Equity Fund	14.95	11.70	25.19
Principal Dynamic Greater China Equity Fund	19.67	14.25	31.94
Principal Dynamic Hong Kong Equity Fund	13.09	10.79	11.85
Principal Growth Fund	20.50	17.36	15.91
Principal Guaranteed Fund**	N/A	N/A	1.00
Principal - Hang Seng Index Tracking Fund	13.66	11.36	11.86
Principal - MPF Conservative Fund	11.04	10.92	1.01
Principal Stable Fund	17.07	15.71	8.25

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

The net annualised investment return of Principal Guaranteed Fund Policy for a particular period is the average declared return of the Fund for that period. The declared return was 4% per annum for the period from 12 December 2006 to 1 October 2013, 3% per annum for the period from 2 October 2013 to 31 December 2015, 1% per annum for the period from 1 January 2016 to 31 March 2020 and 0.25% per annum for the period from 1 April 2020 onwards.

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

** Please refer to the note for Principal Guaranteed Fund as shown on page 23 to 24.

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Performance table (continued)

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	10.37	9.96	(2.04)
Principal Balanced fund	20.36	16.86	(10.64)
Principal Cash Fund	11.29	11.19	0.89
Principal Core Accumulation Fund	11.32	9.92	(6.27)
Principal Dynamic Asian Bond Fund	9.95	9.45	(1.12)
Principal Dynamic Asia Pacific Equity Fund	14.79	11.64	(12.06)
Principal Dynamic Global Bond Fund	9.53	9.10	(1.49)
Principal Dynamic Global Equity Fund	14.34	11.42	(11.25)
Principal Dynamic Greater China Equity Fund	20.29	14.33	(19.35)
Principal Dynamic Hong Kong Equity Fund	14.51	10.60	(14.96)
Principal Growth Fund	21.87	17.30	(13.05)
Principal Guaranteed Fund**	N/A	N/A	1.00
Principal - Hang Seng Index Tracking Fund	14.62	11.21	(11.14)
Principal - MPF Conservative Fund	10.92	9.96	0.55
Principal Stable Fund	17.18	15.63	(5.63)

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

The net annualised investment return of Principal Guaranteed Fund Policy for a particular period is the average declared return of the Fund for that period. The declared return was 4% per annum for the period from 12 December 2006 to 1 October 2013, 3% per annum for the period from 2 October 2013 to 31 December 2015, 1% per annum for the period from 1 January 2016 to 31 March 2020 and 0.25% per annum for the period from 1 April 2020 onwards.

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

** Please refer to the note for Principal Guaranteed Fund as shown on page 23 to 24.

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Performance table (continued)

Performance record for the year ended 31 December 2017

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

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

The net annualised investment return of Principal Guaranteed Fund Policy for a particular period is the average declared return of the Fund for that period. The declared return was 4% per annum for the period from 12 December 2006 to 1 October 2013, 3% per annum for the period from 2 October 2013 to 31 December 2015, 1% per annum for the period from 1 January 2016 to 31 March 2020 and 0.25% per annum for the period from 1 April 2020 onwards.

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

** Please refer to the note for Principal Guaranteed Fund as shown on page 23 to 24.

These Constituent Funds were newly launched on 1 April 2017.

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Performance table (continued)

Performance record for the year ended 31 December 2016

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

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

The net annualised investment return of Principal Guaranteed Fund Policy for a particular period is the average declared return of the Fund for that period. The declared return was 4% per annum for the period from 12 December 2006 to 1 October 2013, 3% per annum for the period from 2 October 2013 to 31 December 2015, 1% per annum for the period from 1 January 2016 to 31 March 2020 and 0.25% per annum for the period from 1 April 2020 onwards.

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

** Please refer to the note for Principal Guaranteed Fund as shown on page 23 to 24.

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Performance table (continued)

Performance record for the year ended 31 December 2015

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

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

The net annualised investment return of Principal Guaranteed Fund Policy for a particular period is the average declared return of the Fund for that period. The declared return was 4% per annum for the period from 12 December 2006 to 1 October 2013, 3% per annum for the period from 2 October 2013 to 31 December 2015, 1% per annum for the period from 1 January 2016 to 31 March 2020 and 0.25% per annum for the period from 1 April 2020 onwards.

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

** Please refer to the note for Principal Guaranteed Fund as shown on page 23 to 24.

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Performance table (continued)

Performance record for the year ended 31 December 2014

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

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

The net annualised investment return of Principal Guaranteed Fund Policy for a particular period is the average declared return of the Fund for that period. The declared return was 4% per annum for the period from 12 December 2006 to 1 October 2013, 3% per annum for the period from 2 October 2013 to 31 December 2015, 1% per annum for the period from 1 January 2016 to 31 March 2020 and 0.25% per annum for the period from 1 April 2020 onwards.

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

This constituent Fund was newly launched on 3 November 2014.

** Please refer to the note for Principal Guaranteed Fund as shown on page 23 to 24.

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Performance table (continued)

Note for Principal Guaranteed Fund

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

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

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

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

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

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

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

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

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

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Performance table (continued)

Note for Principal Guaranteed Fund (continued)

On 23 June 2023, the Insurer decided to terminate the Fund with effect on 26 October 2023 and gave notice to the Trustee regarding its decision. On 26 October 2023, the fund was terminated and all assets and holding of the Fund were redeemed. After all assets of the Fund were cleared, the Trustee applied in writing to the SFC on 12 December 2023 and to the MPFA on 23 January 2024, respectively, for approval for de-registering the Fund. The de-registration of the Fund was approved by the SFC and the MPFA on 29 January 2024 and since then, the Fund has been de-registered. For the APIF, The Trustee applied in writing to the SFC and MPFA on 29 May 2024, for approval for de-registering the Fund. The de-registration of the Fund was not yet approved by the SFC and the MPFA by the report date.

PRINCIPAL MPF - SMART PLAN

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.

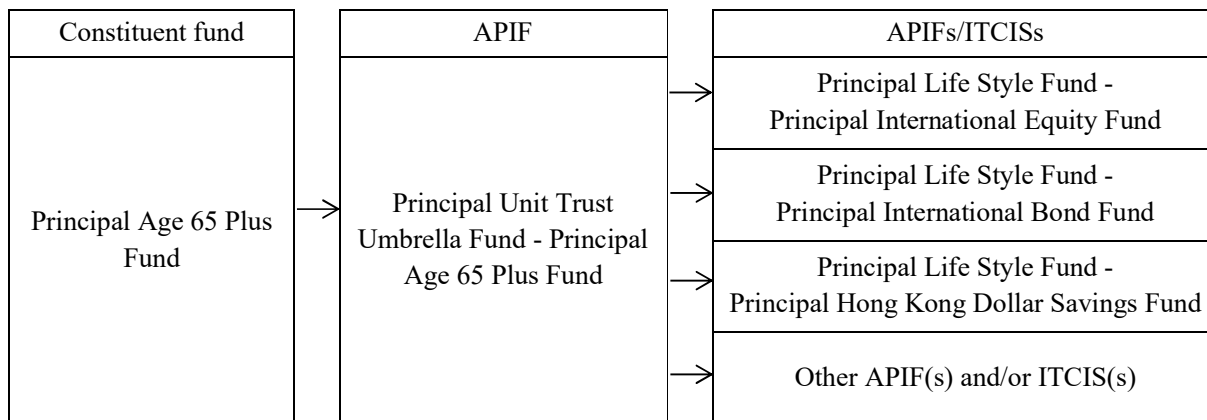
Principal Age 65 Plus Fund

Objective

The investment objective of 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 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.

PRINCIPAL MPF - SMART PLAN

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 small-capitalisation/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

PRINCIPAL MPF - SMART PLAN

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 small-capitalisation/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 MPF - SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Principal Cash Fund

Objective

The Principal Cash Fund aims to provide a return higher than retail HKD savings deposit rate in Hong Kong.

Balance of investments

The Principal Cash Fund pursues its investment objective by investing in a unit trust APIF, the Principal MPF Fund - Principal MPF Cash Fund. The Principal Cash Fund, via the APIF, invests in a wide range of transferable securities including certificates of deposit, floating rate notes and commercial papers, with a diversified spread of high quality financial institutions, sovereign issuers and corporate issuers.

Security lending and repurchase agreements

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

Futures and options

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

Risks

The Principal Cash Fund has a low risk profile. The return on the Principal Cash Fund is expected to be in line with its investment objective with minimal short-term fluctuations.

Investments in the Principal Cash 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
- Risks relating to investing solely in a single APIF or ITCIS
- Risks of investing in collective investment schemes
- Risk of investing in CIBM and/or Bond Connect
- Risk relating solely to investment in the Principal - MPF Conservative Fund and the Principal Cash Fund

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

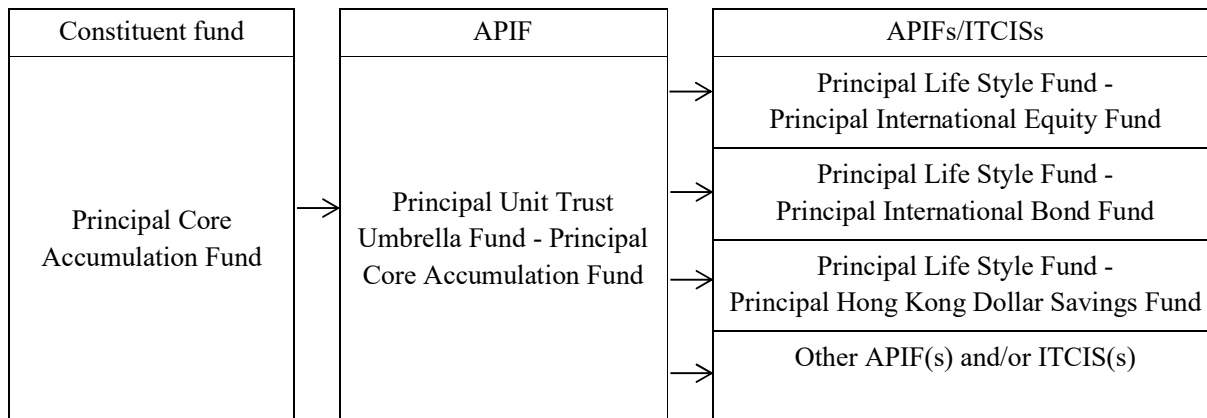
Principal Core Accumulation Fund

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 will be managed to a target of 60% higher risk 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.

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.

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Principal Core Accumulation Fund (continued)

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 small-capitalisation/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

Principal Dynamic Asian Bond Fund

Objective

The Principal Dynamic Asian Bond Fund aims to achieve long term capital growth in HKD terms through a portfolio consisting primarily of bonds within the Asia Pacific region (excluding Japan), including but not limited to Australia, Hong Kong, Korea, Malaysia, New Zealand, Singapore and Thailand.

Balance of investments

The Principal Dynamic Asian Bond Fund will invest in two or more APIFs and/or ITCISs managed by different managers, which in turn, follow the proposed asset allocation of 70% to 100% assets in bonds within the Asia Pacific region (excluding Japan), including but not limited to Australia, Hong Kong, Korea, Malaysia, New Zealand, Singapore and Thailand and 0% to 30% assets in bonds outside the Asia Pacific region (excluding Japan) including but not limited to USD denominated bonds such as US treasury inflation-protected securities and treasury bonds for defensive purpose during periods of perceived uncertainty and volatility in Asian bond market.

Security lending and repurchase agreements

The Principal Dynamic Asian 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 Asian 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 Asian 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 Asian Bond Fund. However, the return on the Principal Dynamic Asian 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 Asian Bond Fund's investment objective.

Investments in the Principal Dynamic Asian 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
- Custodial risk
- Hedging risk
- Fund of funds risk
- Risks of investing in collective investment schemes
- Risk of investing in CIBM and/or Bond Connect

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 small-capitalisation/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

PRINCIPAL MPF - SMART PLAN

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

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 small-capitalisation/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

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Principal Dynamic Greater China Equity Fund

Objective

The Principal Dynamic Greater China Equity Fund aims to achieve long term capital growth in HKD terms through a portfolio consisting primarily of securities of companies based or operating principally in Greater China and the majority of these companies are listed on a stock exchange in Hong Kong or Taiwan.

Balance of investments

The Principal Dynamic Greater China Equity Fund will invest in two or more APIFs and/or ITCISs managed by different managers, which in turn, follow the proposed asset allocation of 70-100% assets in Greater China equities, 0-30% assets in other equities and 0-30% assets in bonds*.

* For cash management purpose only.

Security lending and repurchase agreements

The Principal Dynamic Greater China 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 Greater China 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.

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Principal Dynamic Greater China Equity Fund (continued)

Risks

The Principal Dynamic Greater China 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 Greater China Equity Fund. Therefore, the return on the Principal Dynamic Greater China 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 Greater China Equity Fund's investment objective.

Investments in the Principal Dynamic Greater China 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
- 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 small-capitalisation/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
- 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
- Risk of investing in CIBM and/or Bond Connect

PRINCIPAL MPF - SMART PLAN

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, 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.

Principal Dynamic Hong Kong Equity Fund (continued)

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 small-capitalisation/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

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 small-capitalisation/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 MPF - SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Principal Guaranteed Fund

Objective

The Principal Guaranteed Fund aims to achieve a return in excess of 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 Guaranteed Fund, through an insurance policy based APIF, the Principal Guaranteed Fund Policy, invests in a unit trust APIF, the Principal MPF Fund - Principal MPF Capital Stable Fund. The unit trust APIF will invest through other unit trust APIFs to gain exposure to a diversified portfolio of bonds, equities and deposits, with heavier weighting in bonds. Normally around 60% to 90% of the assets will be invested in bonds, 10% to 25% in equities and up to 25% in deposits.

Guarantee features

The insurance policy based APIF in which the Principal Guaranteed Fund invests offers a guarantee given by the Sponsor on amounts invested in the insurance policy based APIF (net of contribution charges and offer spread, if any). For details on the features of the guarantee and its operation, please refer to Appendix 1 (Insurance policy based APIF).

Security lending and repurchase agreements

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

Futures and options

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

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Principal - Hang Seng Index Tracking Fund

Objective

The Principal - Hang Seng Index Tracking Fund aims to provide investment results that closely correspond to the performance of the Hang Seng Index.

Balance of investments

The Principal - Hang Seng Index Tracking Fund pursues its investment objective by investing solely in a single ITCIS, the TraHK. The Principal - Hang Seng Index Tracking Fund, via the TraHK, invests all, or substantially all, of its assets in the Index Shares in substantially the same weightings as they appear in the Hang Seng Index.

The Principal - Hang Seng Index Tracking Fund will, through the TraHK, maintain an effective currency exposure to HKD of not less than 30% of the NAV of the Principal - Hang Seng Index Tracking Fund. The Principal - Hang Seng Index Tracking Fund may hold cash or bank deposits for ancillary purposes, such as for meeting redemption request.

Tracking of the Hang Seng Index by the TraHK

The investment manager of the TraHK reviews the shares held in the TraHK's portfolio on each business day, checking those shares against the Index Shares and comparing the weighting of each Index Share in the TraHK's portfolio to the weighting of the corresponding constituent share in the Hang Seng Index.

Members should be aware that whilst the Principal - Hang Seng Index Tracking Fund, through its investment in the TraHK, aims to achieve a return which follows the trend of the Hang Seng Index, there is no guarantee/assurance that the performance of the Principal - Hang Seng Index Tracking Fund and the TraHK will at any time be identical to that of the Hang Seng Index.

In the event that there is any deviation between the TraHK's portfolio and the composition and weighting of the Hang Seng Index thereby giving rise to a tracking error which is considered by the investment manager of the Principal - Hang Seng Index Tracking Fund to be significant taking into account the investment objective, the investment manager of the Principal - Hang Seng Index Tracking Fund will effect adjustments of the TraHK's portfolio which it considers appropriate as soon as it is reasonably practicable, after considering transaction costs and the impact, if any, on the market. However, it will not always be efficient to replicate or attempt to replicate identically the share composition of the Hang Seng Index if, for example, transaction costs incurred by the TraHK in performing any necessary adjustments would outweigh the anticipated reduction in tracking error that would result from failure to reflect minor changes in the Hang Seng Index. Therefore, minor mis-weightings are likely to occur. Further, the investment manager of the Principal - Hang Seng Index Tracking Fund may be restricted from effecting certain adjustments or may be required to perform certain adjustments by applicable laws and regulations.

Hang Seng Index

The Hang Seng Index is a widely quoted indicator for the performance of the Hong Kong stock market. It is composed of constituent companies listed on the Main Board of the Stock Exchange, and the shares of which generally have high market value and liquidity in the Hong Kong stock market. The Hang Seng Index is compiled by adopting free float-adjusted market capitalization weighted methodology. Details of the Hang Seng Index methodology can be found in the website of Hang Seng Indexes Company Limited (www.hsi.com.hk). The latest index information and other important news of the Hang Seng Index can also be obtained from that website.

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Principal - Hang Seng Index Tracking Fund (continued)

Balance of investments (continued)

Hang Seng Index (continued)

Constituent stocks of the Hang Seng Index are selected by a process of detailed analysis. Mainland enterprises that have an H-share listing in Hong Kong are eligible for inclusion in the Hang Seng Index if they meet certain conditions. The Hang Seng Index is reviewed quarterly. The composition of the Hang Seng Index may change if one of the constituent stocks was changed or if any of the constituent companies were to delist its shares or if a new company were to list its shares on the Stock Exchange and be added to the Hang Seng Index.

The Hang Seng Index is published and compiled by Hang Seng Indexes Company Limited pursuant to a licence from Hang Seng Data Services Limited. The mark and name Hang Seng Index are proprietary to Hang Seng Data Services Limited. Hang Seng Indexes Company Limited and Hang Seng Data Services Limited have agreed to the use of, and reference to, the Hang Seng Index by the Trustee in connection with the Principal - Hang Seng Index Tracking Fund, but neither Hang Seng Indexes Company Limited nor Hang Seng Data Services Limited warrants or represents or guarantees to any broker or holder of the Principal - Hang Seng Index Tracking Fund or any other person (i) the accuracy or completeness of the Hang Seng Index and its computation or any information related thereto; or (ii) the fitness or suitability for any purpose of the Hang Seng Index or any component or data comprised in it; or (iii) the results which may be obtained by any person from the use of the Hang Seng Index or any component or data comprised in it for any purpose, and no warranty or representation or guarantee of any kind whatsoever relating to the Hang Seng Index is given or may be implied. The process and basis of computation and compilation of the Hang Seng Index and any of the related formula or formulae, constituent stocks and factors may at any time be changed or altered by Hang Seng Indexes Company Limited without notice. to the extent permitted by applicable law, no responsibility or liability is accepted by Hang Seng Indexes Company Limited or Hang Seng Data Services Limited (i) in respect of the use of and/or reference to the Hang Seng Index by the trustee in connection with the Principal - Hang Seng Index Tracking Fund; or (ii) for any inaccuracies, omissions, mistakes or errors of Hang Seng Indexes Company Limited in the computation of the Hang Seng Index; or (iii) for any inaccuracies, omissions, mistakes, errors or incompleteness of any information used in connection with the computation of the Hang Seng Index which is supplied by any other person; or (iv) for any economic or other loss which may be directly or indirectly sustained by any broker or holder of the Principal - Hang Seng Index Tracking Fund or any other person dealing with the Principal - Hang Seng Index Tracking Fund as a result of any of the aforesaid, and no claims, actions or legal proceedings may be brought against Hang Seng Indexes Company Limited and/or Hang Seng Data Services Limited in connection with the Principal - Hang Seng Index Tracking Fund in any manner whatsoever by any broker, holder or other person dealing with the Principal - Hang Seng Index Tracking Fund. Any broker, holder or other person dealing with the Principal - Hang Seng Index Tracking Fund does so therefore in full knowledge of this disclaimer and can place no reliance whatsoever on Hang Seng Indexes Company Limited and Hang Seng Data Services Limited. For the avoidance of doubt, this disclaimer does not create any contractual or quasi-contractual relationship between any broker, holder or other person and Hang Seng Indexes Company Limited and/or Hang Seng Data Services Limited and must not be construed to have created such relationship.

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Principal - Hang Seng Index Tracking Fund (continued)

Balance of investments (continued)

Hang Seng Index (continued)

Members, by investing in the Principal - Hang Seng Index Tracking Fund, will be regarded as having acknowledged, understood and accepted the disclaimer of Hang Seng Indexes Company Limited and Hang Seng Data Services Limited referred to above and will be bound by it. The level of the Hang Seng Index at any time for the purposes of the Principal - Hang Seng Index Tracking Fund will be the level as calculated by Hang Seng Indexes Company Limited in its sole discretion.

Hang Seng Indexes Company Limited is the compiler and publisher of the Hang Seng Index. The investment manager of the TraHK, State Street Global Advisors Asia Limited, and the Trustee, are independent of Hang Seng Indexes Company Limited and Hang Seng Data Services Limited.

Security lending and repurchase agreements

Neither the Principal - Hang Seng Index Tracking Fund nor the TraHK will enter into any security lending or repurchase agreements.

Futures and options

The Principal - Hang Seng Index Tracking Fund will not enter into any financial futures contracts or options contracts.

The TraHK is permitted to enter into financial futures contracts and options contract for hedging purposes or to achieve the investment objective. The value of the TraHK's investments in options contracts (in terms of the total amount of premium paid) and the value of the TraHK's investments in financial futures contracts (in terms of the total net aggregate value of outstanding contract prices payable by or to the TraHK) will not in the aggregate exceed 10% of the TraHK's NAV. The TraHK may only enter into financial futures contracts which are traded on the Hong Kong Futures Exchange Limited.

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Principal - Hang Seng Index Tracking Fund (continued)

Risks

The Principal - Hang Seng Index Tracking 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 – Hang Seng Index Tracking Fund. Therefore, the return on the Principal - Hang Seng Index Tracking Fund may fluctuate significantly, particularly in the short term.

The performance of the TraHK, NAV of the TraHK, the performance by the investment manager and the trustee of the TraHK of their respective obligations are not guaranteed by the Hong Kong Government. The Hong Kong Government has given no guarantee or assurance that the investment objective of the TraHK will be met.

Investments in the Principal - Hang Seng Index Tracking 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
- Security risk
- Liquidity risk
- 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 solely in a single APIF or ITCIS
- Risks relating to investing in an APIF or an ITCIS that invests in a single market
- Risks of investing in collective investment schemes
- Risks relating to investments in PRC securities
- Risk relating solely to investing in the Principal - Hang Seng Index Tracking Fund

PRINCIPAL MPF - SMART PLAN

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 and the Principal Cash Fund

PRINCIPAL MPF - SMART PLAN

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 small-capitalisation/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 MPF - SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Commentary by the Trustee

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

Principal Age 65 Plus Fund

Launch Date: 1 April 2017

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

	1 year (%)	5 year ann. (%)	10 year ann. (%)	Since Launch ann. (%)
Fund Performance*	7.73	2.33	N/A	1.81
Benchmark/Performance Target#	7.21	1.73	N/A	1.59
Deviation	0.52	0.60	N/A	0.22

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 management to grasp opportunities in the market and an improvement on performance can be seen this year. The fund has been offered more active management 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 the year, especially the rally in fixed income and equity in Q4 as the US economic data provided much needed relief that inflation peaked.

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Commentary by the Trustee (continued)

Principal Balanced Fund

Launch Date: 1 December 2000

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

	1 year (%)	5 year ann. (%)	10 year ann. (%)	Since Launch ann. (%)
Fund Performance*	6.28	2.40	1.72	2.89
Benchmark/Performance Target#	6.41	2.31	2.08	N/A
Deviation	-0.13	0.09	-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 positive 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.

With positive asset allocation alpha, stock selection effects detracted most to the performance over 2023. Allocation in US tech and China A-shares ETFs acted as the main contributors to the fund, and our Hong Kong equity sleeve outperformed index among market volatility and also helped on the fund performance. While performance of some underlying funds 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-weighted Blue Chip exposures; the European equity sleeve was also weighed by the stock selection in Industrials sector over the year.

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Commentary by the Trustee (continued)

Principal Cash Fund

Launch Date: 1 December 2000

Reference Benchmark: MPF Prescribed Savings Rate

	1 year (%)	5 year ann. (%)	10 year ann. (%)	Since Launch ann. (%)
Fund Performance*	3.68	0.96	0.67	0.73
Benchmark/Performance Target#	0.76	0.19	0.10	0.41
Deviation	2.92	0.77	0.57	0.32

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

During the financial period ended 31 December 2023, the net return was contributed mainly by the fixed income securities which led by a global peak in yields and the conclusion of the global central bank hiking cycle. The fund optimized yield across various options in time deposits, certificate of deposits and public market securities to generate returns. The fund's duration will remain rangebound as the Manager looks to tactically reinvest at higher rates in the current rate hiking cycle.

Over longer time periods, performance remained competitive against the prescribed savings rate.

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Commentary by the Trustee (continued)

Principal Core Accumulation Fund

Launch Date: 1 April 2017

Reference Benchmark: MPF DIS Reference Portfolio - Core Accumulation Fund

	1 year (%)	5 year ann. (%)	10 year ann. (%)	Since Launch ann. (%)
Fund Performance*	14.57	6.60	N/A	5.11
Benchmark/Performance Target#	14.03	6.49	N/A	5.28
Deviation	0.54	0.11	N/A	-0.17

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

The fund was launched in April 2017 to provide capital growth to members by investing in a globally diversified manner. The fund outperformed its market benchmark in 2023. The rebalancing plan has been completed in Q4 2022, 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 management to grasp opportunities in the market and an improvement on performance can be seen this year.

During the financial period ended 31 December 2023, quality factor was the best performer among various investment style factors in 2023, 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.

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Commentary by the Trustee (continued)

Principal Dynamic Asian Bond Fund

Launch Date: 13 August 2012

Reference Benchmark: ICE BAML Asian Dollar Investment Grade TR Index

	1 year (%)	5 year ann. (%)	10 year ann. (%)	Since Launch ann. (%)
Fund Performance*	5.17	0.02	0.31	-0.21
Benchmark/Performance Target#	6.28	N/A	N/A	-1.54
Deviation	-1.11	N/A	N/A	1.33

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

Although the Asian credit spreads widened notably in the first half due to the collapse of several regional banks in the US, bond markets displayed remarkable resilience and stability in the second half despite increasing concerns over China's growth recovery and further weakening of China's property sector after initial optimism towards the post-pandemic reopening faded. Asian credit spreads tightened gradually as risk sentiments improved in the last quarter.

During the financial period ended 31 December 2023, the fund's benchmark was changed from Markit iBoxx ABF Pan-Asia Index to ICE BAML Asian Dollar Investment Grade TR Index in Sep 2023 to address the currency base mismatch between the benchmark and the portfolio, where Markit iBoxx ABF Pan-Asia Index is local currency based and the portfolio is hard currency based. The fund lagged benchmark in 2023. Security selection proved to be a drag affected by spread duration and certain idiosyncratic positions detracted the performance.

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

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Commentary by the Trustee (continued)

Principal Dynamic Asia Pacific Equity Fund

Launch Date: 10 January 2011

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

	1 year (%)	5 year ann. (%)	10 year ann. (%)	Since Launch ann. (%)
Fund Performance*	7.94	2.38	2.91	2.40
Benchmark/Performance Target#	15.62	8.83	5.00	4.00
Deviation	-7.68	-6.45	-2.09	-1.60

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 impact 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.

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Commentary by the Trustee (continued)

Principal Dynamic Global Bond Fund

Launch Date: 10 January 2011

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

	1 year (%)	5 year ann. (%)	10 year ann. (%)	Since Launch ann. (%)
Fund Performance*	4.38	-1.54	-1.84	-1.17
Benchmark/Performance Target#	3.77	-2.32	-1.03	-0.59
Deviation	0.61	0.78	-0.81	-0.58

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 in 2023 but concluded the year 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, while allocation in term structure also helped 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.

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Commentary by the Trustee (continued)

Principal Dynamic Global Equity Fund

Launch Date: 1 December 2000

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

	1 year	5 year	10 year	Since
	(%)	ann. (%)	ann. (%)	Launch
				ann. (%)
Fund Performance*	18.92	8.91	5.45	2.64
Benchmark/Performance Target#	20.34	10.48	6.85	N/A
Deviation	-1.42	-1.57	-1.40	N/A

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

Global equity market had shown significant returns over the year, 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.

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Commentary by the Trustee (continued)

Principal Dynamic Greater China Equity Fund

Launch Date: 13 August 2012

Reference Benchmark: FTSE MPF Greater China

	1 year (%)	5 year ann. (%)	10 year ann. (%)	Since Launch ann. (%)
Fund Performance*	-10.98	2.50	3.01	4.66
Benchmark/Performance Target#	-3.23	-0.21	1.79	3.19
Deviation	-7.75	2.71	1.22	1.47

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

The disappointing China equity market performance has largely been driven by ongoing weakness in real estate sector, and fragile consumer and business confidence. The performance was detracted by unfavorable positions across sectors, notably from consumer staples, e-commerce and healthcare sectors due to the weak recovery in consumption in China. During the financial period ended 31 December 2023, positive effects from positions in technology, led by the strong recovery in Taiwan, helped offset some losses. However, negative stock selection in financials dragged the performance of the fund over the year.

In light of the satisfactory performance of the fund over long-term periods, Principal Asset Management Company (Asia) Limited takes continuous effort in reviewing the underlying managers and making appropriate adjustment to the strategic underlying fund allocation to enhance the risk-adjusted performance.

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Commentary by the Trustee (continued)

Principal Dynamic Hong Kong Equity Fund

Launch Date: 10 January 2011

Reference Benchmark: FTSE MPF Hong Kong

	1 year (%)	5 year ann. (%)	10 year ann. (%)	Since Launch ann. (%)
Fund Performance*	-14.02	-5.76	-1.83	-1.44
Benchmark/Performance Target#	-13.41	-5.73	-1.30	-0.80
Deviation	-0.61	-0.03	-0.53	-0.64

The fund underperformed the benchmark on 1-year, 10-year and since launch periods, but performed on par with the benchmark over 5-year period.

Both Hong Kong and China equity markets have had a very volatile year. 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. China's consumption rebounded slowed and private business confidence lost momentum also dragged on equity market. 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. 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.

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Commentary by the Trustee (continued)

Principal Growth Fund

Launch Date: 1 December 2000

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

	1 year (%)	5 year ann. (%)	10 year ann. (%)	Since Launch ann. (%)
Fund Performance*	7.28	3.32	2.44	3.22
Benchmark/Performance Target#	7.52	3.57	2.93	N/A
Deviation	-0.24	-0.25	-0.49	N/A

The fund underperformed the 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. Most of the 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 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. 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 detracting in mainly equity side. Negative stock selection in US and Europe equities 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.

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Commentary by the Trustee (continued)

Principal Guaranteed Fund

Launch Date: 1 December 2000

Reference Benchmark: MPF Prescribed Savings Rate

The 'Declared Crediting Rate' for the Principal Guaranteed Fund remains at 0.25% per annum. The fund was terminated on 26 October 2023.

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Commentary by the Trustee (continued)

Principal - Hang Seng Index Tracking Fund

Launch Date: 3 November 2014

Reference Benchmark: Hang Seng Index Total Return Index

	1 year (%)	5 year ann. (%)	10 year ann. (%)	Since Launch ann. (%)
Fund Performance*	-11.36	-5.87	N/A	-1.56
Benchmark/Performance Target#	-11.35	-5.78	-0.50	-1.21
Deviation	-0.01	-0.09	N/A	-0.35

The fund underperformed the benchmark over 5-year and since launch periods, but performed on par with the benchmark over 1-year period.

The fund provides investment results that closely correspond to the performance of the Hang Seng Index through investing substantially all of the fund's assets in units of the Tracker Fund of Hong Kong. During the financial period ended on 31 December 2023, performance largely aligned with Hang Seng Index with tracking error being further improved.

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Commentary by the Trustee (continued)

Principal - MPF Conservative Fund

Launch Date: 1 December 2000

Reference Benchmark: MPF Prescribed Savings Rate

	1 year (%)	5 year ann. (%)	10 year ann. (%)	Since Launch ann. (%)
Fund Performance*	3.42	1.02	0.56	0.60
Benchmark/Performance Target#	0.76	0.19	0.10	0.41
Deviation	2.66	0.83	0.46	0.19

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

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

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.

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Commentary by the Trustee (continued)

Principal Stable Fund

Launch Date: 1 December 2000

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

	1 year	5 year	10 year	Since
	(%)	ann. (%)	ann. (%)	Launch
				ann. (%)
Fund Performance*	4.75	0.42	0.23	2.08
Benchmark/Performance Target#	4.70	-0.27	0.23	N/A
Deviation	0.05	0.69	0.00	N/A

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

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 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, which turned in negative returns, have had a very volatile year. Both markets were among the worst performing markets in Asia. 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.

During the financial period ended 31 December 2023, both asset allocation and stock selection alpha of the fund 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.

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Performance assessment framework:

Principal Trust Company (Asia) Limited (the “Trustee”) and Principal Asset Management Company (Asia) Limited (the “Investment Manager”) take continuous efforts in reviewing and improving the performance of the Constituent Funds. Currently, an investment committee is in place to oversee the performance of the Constituent Funds and the underlying fund managers. 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 managers are conducted to review each investment team and strategy and discuss business goals. The objective of this qualitative assessment is to ensure the delegate managers retain 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. Except for Principal Dynamic Asia Pacific Equity Fund, Principal Dynamic Greater China Equity Fund, Principal Dynamic Global Equity Fund, Principal Dynamic Global Bond Fund, Principal Cash Fund and Principal Core Accumulation Fund, all the other Constituent Funds in the scheme 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.

PRINCIPAL MPF - SMART PLAN

INVESTMENT REPORT (continued)

Investment objectives and policies (continued)

Changes in the statement of investment policy

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

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

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

Martin Lau

A large, stylized handwritten signature in black ink, appearing to be the same name as the one to its left.

Hong Kong
25 June 2024

PRINCIPAL MPF - SMART PLAN

SCHEME REPORT

The Trustee hereby submits the scheme report together with the audited financial statements of Principal MPF - Smart Plan (the "Scheme") for the year ended 31 December 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 27 January 2000, as subsequently amended. The Scheme is registered under section 21 of the Ordinance.

Financial development

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

Enquiry

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

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

PRINCIPAL MPF - SMART PLAN

SCHEME REPORT (continued)

Directors

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

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

PRINCIPAL MPF - SMART PLAN

SCHEME REPORT (continued)

Controllers

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

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.

PRINCIPAL MPF - SMART PLAN

SCHEME REPORT (continued)

Controllers

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

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

PRINCIPAL MPF – SMART PLAN

SCHEME REPORT (continued)

Controllers (continued)

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

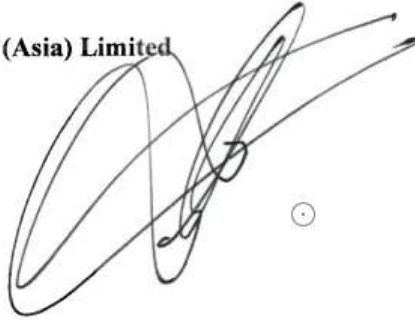
Principal Financial Group, Inc.
711 High Street, Des Moines
Iowa 50392, U.S.A.

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

Martin Lau

A large, stylized handwritten signature in black ink, appearing to be 'Martin Lau', with a small circular mark below it.

Hong Kong
25 June 2024



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

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Principal MPF - Smart Plan (the "Scheme") set out on pages 72 to 112, 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 - Smart Plan

Responsibilities of Trustee for the Financial Statements (continued)

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

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

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 HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. In addition, we are required to assess whether the financial statements of the Scheme has been properly prepared, in all material respects, in accordance with sections 80, 81, 83 and 84 of the General Regulation.

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

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



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

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

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

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

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

Certified Public Accountants
Hong Kong
25 June 2024

PRINCIPAL MPF - SMART PLAN

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2023

		2023																
Notes	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	*Principal Guaranteed Fund HK\$	Principal -Hang Seng Index Tracking Fund HK\$	Principal -MPF Conservative Fund HK\$	Principal Stable Fund HK\$	Scheme Level HK\$	Total HK\$	
Income																		
	-	-	-	-	-	-	-	-	-	-	-	-	19,652,056	-	-	-	19,652,056	
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	4	26,456,239	136,491,497	23,612,066	97,438,070	10,595,509	71,282,361	21,068,460	497,995,450	(118,158,555)	(126,308,463)	214,898,928	93,191,183	(82,211,999)	85,165,875	81,840,711	-	1,033,357,332
	3	-	-	-	-	16	-	-	-	-	-	-	15	-	-	-	-	31
		946	12,889	-	2,639	403	2,097	2,172	3,174	28,874	10,459	17,902	-	11,699	-	13,763	-	107,017
		<u>26,457,185</u>	<u>136,504,386</u>	<u>23,612,066</u>	<u>97,440,709</u>	<u>10,595,928</u>	<u>71,284,458</u>	<u>21,070,632</u>	<u>497,998,624</u>	<u>(118,129,681)</u>	<u>(126,298,004)</u>	<u>214,916,830</u>	<u>93,191,183</u>	<u>(62,548,229)</u>	<u>85,165,875</u>	<u>81,854,474</u>	<u>-</u>	<u>1,053,116,436</u>
Expenditure																		
	(15,167)	(52,349)	(15,662)	(32,020)	(5,387)	(25,246)	(11,589)	(87,005)	(51,437)	(28,353)	(72,628)	-	(18,687)	(44,472)	(38,967)	-	(498,969)	
	5(a),(c)	(779,295)	(5,934,969)	(569,725)	(1,690,660)	(704,906)	(3,077,769)	(1,371,178)	(10,547,542)	(5,392,377)	(4,583,769)	(8,334,561)	-	(351,196)	(2,121,989)	(4,338,801)	-	(49,798,737)
		-	-	-	-	-	-	-	-	-	-	-	-	(82,309)	-	-	-	(82,309)
		(13,023)	(71,902)	(19,649)	(29,153)	(6,523)	(30,753)	(13,361)	(110,116)	(48,149)	(37,359)	(101,788)	-	(24,192)	(71,959)	(51,696)	-	(629,623)
		-	-	-	-	-	-	-	-	-	-	-	-	(161,534)	-	-	-	(161,534)
	5(d)	(167,623)	(517,384)	(155,924)	(333,319)	(71,995)	(272,046)	(130,482)	(947,817)	(549,027)	(300,788)	(806,659)	-	(567,129)	(651,789)	(428,325)	-	(5,900,307)
	5(a),(c)	-	(4,496,189)	(1,294,830)	-	(418,491)	(1,923,606)	(878,960)	(6,592,214)	(2,963,496)	(2,439,732)	(6,314,061)	-	(1,463,318)	(4,822,702)	(3,286,970)	-	(36,894,569)
	5(a),(b)	(1,558,589)	(17,804,907)	(2,745,039)	(3,381,320)	(1,088,075)	(7,694,424)	(2,707,199)	(26,368,854)	(7,586,550)	(8,392,679)	(25,003,682)	-	(3,394,896)	(10,995,761)	(13,016,403)	-	(131,738,378)
		<u>(2,533,697)</u>	<u>(28,877,700)</u>	<u>(4,800,829)</u>	<u>(5,466,472)</u>	<u>(2,295,377)</u>	<u>(13,023,844)</u>	<u>(5,112,769)</u>	<u>(44,653,548)</u>	<u>(16,591,036)</u>	<u>(15,782,680)</u>	<u>(40,633,379)</u>	<u>-</u>	<u>(6,063,261)</u>	<u>(18,708,672)</u>	<u>(21,161,162)</u>	<u>-</u>	<u>(225,704,426)</u>
Increase/(decrease) in net assets available for benefits and total profit or loss and other comprehensive income for the year																		
	<u>23,923,488</u>	<u>107,626,686</u>	<u>18,811,237</u>	<u>91,974,237</u>	<u>8,300,551</u>	<u>58,260,614</u>	<u>15,957,863</u>	<u>453,345,076</u>	<u>(134,720,717)</u>	<u>(142,080,684)</u>	<u>174,283,451</u>	<u>93,191,183</u>	<u>(68,611,490)</u>	<u>66,457,203</u>	<u>60,693,312</u>	<u>-</u>	<u>827,412,010</u>	

* This Constituent Fund was terminated on 26 October 2023.

PRINCIPAL MPF - SMART PLAN

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

Year ended 31 December 2023

		2022																
Notes	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal Guaranteed Fund HK\$	Principal -Hang Seng Index Tracking Fund HK\$	Principal -MPF Conservative Fund HK\$	Principal Stable Fund HK\$	Scheme Level HK\$	Total HK\$	
Income																		
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	17,477,581	17,477,581
	(Losses)/gains																	
	on investments	4 (43,346,682)	(376,216,216)	619,715	(105,770,611)	(18,704,372)	(196,493,563)	(66,712,811)	(617,373,269)	(450,596,881)	(235,619,740)	(563,622,966)	(304,215,637)	(84,299,300)	19,320,327	(227,604,448)	-	(3,270,636,454)
	Interest income	3 -	-	-	-	13	-	-	-	-	-	-	7	-	-	-	-	20
	Other income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		<u>(43,346,682)</u>	<u>(376,216,216)</u>	<u>619,715</u>	<u>(105,770,611)</u>	<u>(18,704,359)</u>	<u>(196,493,563)</u>	<u>(66,712,811)</u>	<u>(617,373,269)</u>	<u>(450,596,881)</u>	<u>(235,619,740)</u>	<u>(563,622,966)</u>	<u>(304,215,637)</u>	<u>(66,821,712)</u>	<u>19,320,327</u>	<u>(227,604,448)</u>	<u>-</u>	<u>(3,253,158,853)</u>
Expenditure																		
	Audit Fee	(1,992)	(46,860)	(13,045)	(3,750)	(3,735)	(18,724)	(7,976)	(53,712)	(22,427)	(26,355)	(62,929)	-	(9,592)	(35,137)	(35,154)	-	(341,388)
	Investment management fee	5(a),(c) (725,502)	(6,081,953)	(568,399)	(1,503,200)	(719,451)	(3,242,343)	(1,379,239)	(10,755,269)	(5,757,563)	(4,796,415)	(8,328,522)	-	(327,067)	(2,132,390)	(4,524,753)	-	(50,842,066)
	Investment transaction costs	-	-	-	-	-	-	-	(1)	-	-	-	-	(88,683)	-	-	-	(88,684)
	Legal and professional fees	(1,581)	(54,102)	(16,214)	(3,027)	(5,300)	(22,510)	(11,508)	(64,766)	(31,266)	(31,655)	(72,222)	-	(12,637)	(29,077)	(42,008)	-	(397,873)
	Licence fees	-	-	-	-	-	-	-	-	-	-	-	-	(136,277)	-	-	-	(136,277)
	Operating expenses	5(d) (63,535)	(439,485)	(124,361)	(119,292)	(48,097)	(170,151)	(81,442)	(418,904)	(214,663)	(231,468)	(525,618)	-	(97,573)	(399,257)	(293,571)	-	(3,227,417)
	Sponsor fee	5(a),(c) -	(4,607,541)	(1,291,817)	-	(427,125)	(2,026,464)	(884,128)	(6,427,170)	(3,164,192)	(2,552,915)	(6,309,486)	-	(1,362,779)	(4,739,252)	(3,427,843)	-	(37,220,712)
	Trustee and administrator fee	5(a),(b) (1,451,005)	(18,245,861)	(2,738,652)	(3,006,400)	(1,110,528)	(8,105,857)	(2,723,113)	(25,708,680)	(8,100,331)	(8,782,025)	(24,985,566)	-	(3,161,647)	(10,817,994)	(13,574,258)	-	(132,511,917)
		<u>(2,243,615)</u>	<u>(29,475,802)</u>	<u>(4,752,488)</u>	<u>(4,635,669)</u>	<u>(2,314,236)</u>	<u>(13,586,049)</u>	<u>(5,087,406)</u>	<u>(43,428,501)</u>	<u>(17,290,443)</u>	<u>(16,420,833)</u>	<u>(40,284,343)</u>	<u>-</u>	<u>(5,196,255)</u>	<u>(18,153,107)</u>	<u>(21,897,587)</u>	<u>-</u>	<u>(224,766,334)</u>
	(Decrease)/increase in net assets available for benefits and total profit or loss and other comprehensive income for the year	<u>(45,590,297)</u>	<u>(405,692,018)</u>	<u>(4,132,773)</u>	<u>(110,406,280)</u>	<u>(21,018,595)</u>	<u>(210,079,612)</u>	<u>(71,800,217)</u>	<u>(660,801,770)</u>	<u>(467,887,324)</u>	<u>(252,040,573)</u>	<u>(603,907,309)</u>	<u>(304,215,637)</u>	<u>(72,017,967)</u>	<u>1,167,220</u>	<u>(249,502,035)</u>	<u>-</u>	<u>(3,477,925,187)</u>

PRINCIPAL MPF - SMART PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

Year ended 31 December 2023

		2023																	
Notes	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	*Principal Guaranteed Fund HK\$	Principal - Hang Seng Index Tracking Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$	Scheme Level HK\$	Total HK\$		
ASSETS																			
	Investments measured at fair value through profit or loss																		
6	345,496,964	1,799,962,673	524,082,752	754,060,959	171,182,421	797,789,017	381,440,753	2,840,491,248	1,065,427,255	874,105,985	2,565,412,544	-	551,824,269	3,795,744,140	1,323,350,762	-	17,790,371,742		
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	107,466,828	107,466,828		
	3,457,581	3,873,417	4,813,000	7,600,929	40,276	2,850,884	8,807,932	16,581,157	2,858,922	5,286,692	7,591,615	-	105,876	24,546,123	3,114,137	-	91,528,541		
	1,105,977	6,658,333	3,213,180	3,179,498	527,513	3,937,449	1,632,277	11,029,972	4,623,814	3,169,900	11,275,937	-	731,993	25,415,007	4,706,006	-	81,206,856		
7	-	-	-	-	2,729,508	-	-	-	-	-	-	-	2,471,048	-	-	91,159,864	96,360,420		
	<u>350,060,522</u>	<u>1,810,494,423</u>	<u>532,108,932</u>	<u>764,841,386</u>	<u>174,479,718</u>	<u>804,577,350</u>	<u>391,880,962</u>	<u>2,868,102,377</u>	<u>1,072,909,991</u>	<u>882,562,577</u>	<u>2,584,280,096</u>	-	<u>555,133,186</u>	<u>3,845,705,270</u>	<u>1,331,170,905</u>	<u>198,626,692</u>	<u>18,166,934,387</u>		
LIABILITIES																			
	Amounts pending for allocation																		
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	55,762,461	55,762,461		
	1,288,574	7,706,998	3,901,128	3,651,146	39,189	4,549,406	1,838,442	16,557,459	7,082,539	3,979,120	14,591,432	-	693,190	30,205,720	6,148,939	24,764,845	126,998,127		
	1,268,169	350,622	551,171	1,804,046	296,783	559,928	3,596,422	5,495,289	969,709	1,317,670	1,100,985	-	662,070	8,244,956	247,028	-	26,464,848		
	560,143	2,863,396	538,044	1,215,064	237,355	1,238,317	522,169	4,303,442	1,387,086	1,373,457	3,862,547	-	758,352	4,075,561	2,044,807	10,632,558	35,612,298		
	<u>3,116,886</u>	<u>10,921,016</u>	<u>4,990,343</u>	<u>6,670,256</u>	<u>573,327</u>	<u>6,347,651</u>	<u>5,957,033</u>	<u>26,356,190</u>	<u>9,439,334</u>	<u>6,670,247</u>	<u>19,554,964</u>	-	<u>2,113,612</u>	<u>42,526,237</u>	<u>8,440,774</u>	<u>91,159,864</u>	<u>244,837,734</u>		
	<u>346,943,636</u>	<u>1,799,573,407</u>	<u>527,118,589</u>	<u>758,171,130</u>	<u>173,906,391</u>	<u>798,229,699</u>	<u>385,923,929</u>	<u>2,841,746,187</u>	<u>1,063,470,657</u>	<u>875,892,330</u>	<u>2,564,725,132</u>	-	<u>553,019,574</u>	<u>3,803,179,033</u>	<u>1,322,730,131</u>	<u>107,466,828</u>	<u>17,922,096,653</u>		

PRINCIPAL MPF - SMART PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS (continued)

Year ended 31 December 2023

		2023 (continued)															
Notes	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal Guaranteed Fund HK\$	Principal - Hang Seng Index Tracking Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$		
Number of units in issue	8 30,707,951.9662	93,248,530.1884	44,503,961.3974	54,118,895.3253	17,813,138.0873	58,658,829.0590	44,964,530.4616	155,831,893.8013	63,313,912.8467	105,733,681.5321	123,316,412.9014	-	63,807,525.6000	330,714,968.4134	82,164,844.0255		
Net asset value per unit	11.29	19.29	11.84	14.00	9.76	13.60	8.58	18.23	16.79	8.28	20.79	-	8.66	11.49	16.09		

* This Constituent Fund was terminated on 26 October 2023.

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



Director



Director

PRINCIPAL MPF - SMART PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS (continued)

Year ended 31 December 2023

		2022																
Notes	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal Guaranteed Fund HK\$	Principal - Hang Seng Index Tracking Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$	Scheme Level HK\$	Total HK\$	
ASSETS																		
Investments measured at fair value through profit or loss																		
6	283,213,756	1,739,391,592	519,521,926	594,966,874	159,546,670	740,209,974	332,551,725	2,394,000,968	1,171,060,343	993,760,538	2,402,500,447	2,711,657,405	564,522,242	1,475,146,356	1,290,788,998	-	17,372,839,814	
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	112,414,002	112,414,002	
	6,247,182	760,331	2,499,036	11,062,115	8,506	1,129,130	783,235	5,167,735	16,542,667	19,127,773	1,328,500	-	7,986,994	13,981,817	4,408,200	-	91,033,221	
	2,849,331	9,683,811	5,458,136	7,422,394	1,297,805	9,034,307	4,318,176	24,069,955	7,996,467	13,577,100	14,064,264	-	2,409,519	19,450,008	9,024,208	-	130,655,481	
7	-	-	-	-	2,556,643	-	-	-	-	-	-	-	2,003,038	-	-	86,651,626	91,211,307	
	292,310,269	1,749,835,734	527,479,098	613,451,383	163,409,624	750,373,411	337,653,136	2,423,238,658	1,195,599,477	1,026,465,411	2,417,893,211	2,711,657,405	576,921,793	1,508,578,181	1,304,221,406	199,065,628	17,798,153,825	
LIABILITIES																		
Amounts pending for allocation																		
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	70,493,165	70,493,165	
Amounts payable on redemptions																		
	3,968,076	1,842,693	3,869,531	7,094,013	213,589	1,340,930	283,548	10,185,713	7,275,120	13,179,753	1,667,319	-	3,486,226	11,282,588	4,827,428	7,914,402	78,430,929	
Amounts payable to brokers																		
	2,804,673	652,472	293,289	7,584,244	333,751	2,086,723	949,770	4,128,456	6,656,449	9,372,157	1,690,452	-	-	1,007,818	2,637,943	-	40,198,197	
Accrued expenses and other payables																		
	838,781	7,207,200	1,331,202	1,784,380	448,783	5,800,348	2,166,789	13,435,371	3,897,850	3,898,369	10,223,195	-	1,850,643	15,115,400	5,274,304	8,244,059	81,516,674	
	7,611,530	9,702,365	5,494,022	16,462,637	996,123	9,228,001	3,400,107	27,749,540	17,829,419	26,450,279	13,580,966	-	5,336,869	27,405,806	12,739,675	86,651,626	270,638,965	
Net assets available for benefits																		
	284,698,739	1,740,133,369	521,985,076	596,988,746	162,413,501	741,145,410	334,253,029	2,395,489,118	1,177,770,058	1,000,015,132	2,404,312,245	2,711,657,405	571,584,924	1,481,172,375	1,291,481,731	112,414,002	17,527,514,860	

PRINCIPAL MPF - SMART PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS (continued)

Year ended 31 December 2023

		2022 (continued)														
Notes	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal Guaranteed Fund HK\$	Principal - Hang Seng Index Tracking Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$	
Number of units in issue	8	27,155,336,8041	95,838,636,9309	45,692,754,4854	48,817,545,5215	17,486,200,0316	58,795,190,4415	40,614,705,5564	156,261,498,9549	62,444,277,9434	103,794,582,9798	124,021,753,1358	-	58,486,312,1725	133,218,156,5675	84,066,322,2648
Net asset value per unit		10.48	18.15	11.42	12.22	9.28	12.60	8.22	15.33	18.86	9.63	19.38	-	9.77	11.11	15.36

PRINCIPAL MPF - SMART PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

Year ended 31 December 2023

		2023															
Notes	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	*Principal Guaranteed Fund HK\$	Principal - Hang Seng Index Tracking Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$	Scheme level HK\$	Total HK\$
Balance brought forward	284,698,739	1,740,133,369	521,985,076	596,988,746	162,413,501	741,145,410	334,253,029	2,395,489,118	1,177,770,058	1,000,015,132	2,404,312,245	2,711,657,405	571,584,924	1,481,172,375	1,291,481,731	112,414,002	17,527,514,860
Contributions received and receivable	9 135,438,611	223,865,337	170,857,578	251,157,928	48,500,542	141,060,887	131,344,913	478,403,933	331,946,874	282,898,353	359,260,365	369,825,008	288,992,365	2,986,196,787	215,695,610	(4,947,174)	6,410,497,917
Withdrawals paid and payable	10 (97,117,202)	(272,051,985)	(184,535,302)	(181,949,781)	(45,308,203)	(142,237,212)	(95,631,876)	(485,491,940)	(311,525,558)	(264,940,471)	(373,130,929)	(3,174,673,596)	(238,946,225)	(730,647,332)	(245,140,522)	-	(6,843,328,134)
Increase/(decrease) in net assets available for benefits and total profit or loss and other comprehensive income	23,923,488	107,626,686	18,811,237	91,974,237	8,300,551	58,260,614	15,957,863	453,345,076	(134,720,717)	(142,080,684)	174,283,451	93,191,183	(68,611,490)	66,457,203	60,693,312	-	827,412,010
Balance carried forward	<u>346,943,636</u>	<u>1,799,573,407</u>	<u>527,118,589</u>	<u>758,171,130</u>	<u>173,906,391</u>	<u>798,229,699</u>	<u>385,923,929</u>	<u>2,841,746,187</u>	<u>1,063,470,657</u>	<u>875,892,330</u>	<u>2,564,725,132</u>	<u>-</u>	<u>553,019,574</u>	<u>3,803,179,033</u>	<u>1,322,730,131</u>	<u>107,466,828</u>	<u>17,922,096,653</u>

* This Constituent Fund was terminated on 26 October 2023.

PRINCIPAL MPF - SMART PLAN

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

Year ended 31 December 2023

	2022																	
	Notes	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal Guaranteed Fund HK\$	Principal - Hang Seng Index Tracking Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$	Scheme level HK\$	Total HK\$
Balance brought forward		312,001,607	2,186,285,072	531,064,883	654,405,376	190,328,192	957,466,494	412,486,626	3,056,447,572	1,631,427,401	1,174,609,641	3,035,788,644	3,097,326,519	546,342,075	1,392,228,941	1,573,581,186	111,941,257	20,863,731,486
Contributions received and receivable	9	121,143,161	207,589,888	194,746,278	221,142,624	45,486,746	138,810,344	102,068,989	446,256,319	416,190,943	371,640,390	316,031,538	553,656,201	377,486,507	647,353,257	211,643,700	472,745	4,371,719,630
Withdrawals paid and payable	10	(102,855,732)	(248,049,573)	(199,693,312)	(168,152,974)	(52,382,842)	(145,051,816)	(108,502,369)	(446,413,003)	(401,960,962)	(294,194,326)	(343,600,628)	(635,109,678)	(280,225,691)	(559,577,043)	(244,241,120)	-	(4,230,011,069)
(Decrease)/increase in net assets available for benefits and total profit or loss and other comprehensive income		(45,590,297)	(405,692,018)	(4,132,773)	(110,406,280)	(21,018,595)	(210,079,612)	(71,800,217)	(660,801,770)	(467,887,324)	(252,040,573)	(603,907,309)	(304,215,637)	(72,017,967)	1,167,220	(249,502,035)	-	(3,477,925,187)
Balance carried forward		<u>284,698,739</u>	<u>1,740,133,369</u>	<u>521,985,076</u>	<u>596,988,746</u>	<u>162,413,501</u>	<u>741,145,410</u>	<u>334,253,029</u>	<u>2,395,489,118</u>	<u>1,177,770,058</u>	<u>1,000,015,132</u>	<u>2,404,312,245</u>	<u>2,711,657,405</u>	<u>571,584,924</u>	<u>1,481,172,375</u>	<u>1,291,481,731</u>	<u>112,414,002</u>	<u>17,527,514,860</u>

PRINCIPAL MPF - SMART PLAN
STATEMENT OF CASH FLOWS

Year ended 31 December 2023

	Note	2023 HK\$	2022 HK\$
Cash flows from operating activities			
Interest received		31	20
Distribution income received		19,652,056	17,477,581
Other income received		107,017	738,321
Operating expenses paid		<u>(273,997,301)</u>	<u>(176,101,308)</u>
Net cash flows used in operating activities		<u>(254,238,197)</u>	<u>(157,885,386)</u>
Cash flows from investing activities			
Purchase of investment		(6,284,143,794)	(4,990,187,469)
Proceeds on sale of investment		<u>6,935,684,474</u>	<u>4,976,574,948</u>
Net cash generated from/(used in) investing activities		<u>651,540,680</u>	<u>(13,612,521)</u>
Cash flows from financing activities			
Contributions received		6,400,219,067	4,391,802,523
Withdrawals paid		<u>(6,792,372,437)</u>	<u>(4,206,022,771)</u>
Net cash (used in)/generated from financing activities		<u>(392,153,370)</u>	<u>185,779,752</u>
Net increase in cash and cash equivalents		5,149,113	14,281,845
Cash and cash equivalents at beginning of the year		<u>91,211,307</u>	<u>76,929,462</u>
Cash and cash equivalents at end of year		<u>96,360,420</u>	<u>91,211,307</u>
Analysis of balances of cash and cash equivalents:			
Bank balances	7	<u>96,360,420</u>	<u>91,211,307</u>

PRINCIPAL MPF - SMART PLAN

NOTES TO FINANCIAL STATEMENTS

31 December 2023

1. THE SCHEME

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

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

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

- Principal Age 65 Plus Fund
- Principal Balanced Fund
- Principal Cash Fund
- Principal Core Accumulation Fund
- Principal Dynamic Asian Bond Fund
- Principal Dynamic Asia Pacific Equity Fund
- Principal Dynamic Global Bond Fund
- Principal Dynamic Global Equity Fund
- Principal Dynamic Greater China Equity Fund
- Principal Dynamic Hong Kong Equity Fund
- Principal Growth Fund
- Principal Guaranteed Fund (terminated on 26 October 2023)
- Principal - Hang Seng Index Tracking Fund
- Principal - MPF Conservative Fund
- Principal Stable Fund

PRINCIPAL MPF - SMART PLAN

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.

PRINCIPAL MPF - SMART PLAN

NOTES TO FINANCIAL STATEMENTS

31 December 2023

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 HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i>

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.

(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 Sub-funds' approach and policy align with the amendments, the amendments had no impact on the Scheme's financial statements.

PRINCIPAL MPF - SMART PLAN

NOTES TO FINANCIAL STATEMENTS

31 December 2023

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

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.

PRINCIPAL MPF - SMART PLAN

NOTES TO FINANCIAL STATEMENTS

31 December 2023

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, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Scheme. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

Investments and other financial assets

Initial recognition and measurement

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

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

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

PRINCIPAL MPF - SMART PLAN

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Initial recognition and measurement (continued)

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.

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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.

PRINCIPAL MPF - SMART PLAN

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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.

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.

PRINCIPAL MPF - SMART PLAN

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

General approach (continued)

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

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.

PRINCIPAL MPF - SMART PLAN

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

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.

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.

PRINCIPAL MPF - SMART PLAN

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (continued)

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.
- (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.

PRINCIPAL MPF - SMART PLAN

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (continued)

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.

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.

PRINCIPAL MPF - SMART PLAN

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Units in issue (continued)

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

3. INTEREST INCOME

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

PRINCIPAL MPF - SMART PLAN

NOTES TO FINANCIAL STATEMENTS

31 December 2023

4. GAINS AND LOSSES ON INVESTMENTS

	2023																Total HK\$
	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	*Principal Guaranteed Fund HK\$	Principal - Hang Seng Index Tracking Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$		
Realised (losses)/gains	(3,011,081)	41,499,632	6,745,598	8,998,392	(2,472,094)	(1,922,612)	(10,064,195)	41,382,586	(58,376,315)	(58,281,831)	66,080,169	(30,182,755)	(16,006,972)	25,249,464	9,389,303	19,027,289	
Net change in unrealised gains/(losses)	29,467,320	94,991,865	16,866,468	88,439,678	13,067,603	73,204,973	31,132,655	456,612,864	(59,782,240)	(68,026,632)	148,818,759	123,373,938	(66,205,027)	59,916,411	72,451,408	1,014,330,043	
Net gains/(losses) on investments	<u>26,456,239</u>	<u>136,491,497</u>	<u>23,612,066</u>	<u>97,438,070</u>	<u>10,595,509</u>	<u>71,282,361</u>	<u>21,068,460</u>	<u>497,995,450</u>	<u>(118,158,555)</u>	<u>(126,308,463)</u>	<u>214,898,928</u>	<u>93,191,183</u>	<u>(82,211,999)</u>	<u>85,165,875</u>	<u>81,840,711</u>	<u>1,033,357,332</u>	
	2022																Total HK\$
	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal Guaranteed Fund HK\$	Principal - Hang Seng Index Tracking Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$		
Realised (losses)/gains	(3,494,401)	41,085,506	3,423,786	5,869,422	(4,099,950)	4,819,135	(8,935,096)	23,412,080	(54,823,919)	(60,348,149)	65,266,867	(18,479,158)	(16,689,235)	10,878,487	15,469,578	3,354,953	
Net change in unrealised gains/(losses)	(39,852,281)	(417,301,722)	(2,804,071)	(111,640,033)	(14,604,422)	(201,312,698)	(57,777,715)	(640,785,349)	(395,772,962)	(175,271,591)	(628,889,833)	(285,736,479)	(67,610,065)	8,441,840	(243,074,026)	(3,273,991,407)	
Net (losses)/gains on investments	<u>(43,346,682)</u>	<u>(376,216,216)</u>	<u>619,715</u>	<u>(105,770,611)</u>	<u>(18,704,372)</u>	<u>(196,493,563)</u>	<u>(66,712,811)</u>	<u>(617,373,269)</u>	<u>(450,596,881)</u>	<u>(235,619,740)</u>	<u>(563,622,966)</u>	<u>(304,215,637)</u>	<u>(84,299,300)</u>	<u>19,320,327</u>	<u>(227,604,448)</u>	<u>(3,270,636,454)</u>	

* This Constituent Fund was terminated on 26 October 2023.

PRINCIPAL MPF - SMART PLAN

NOTES TO FINANCIAL STATEMENTS

31 December 2023

5. 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:

	Constituent Fund Level (% p.a. of net assets value)				
	2023				
	Sponsor fee		Trustee and administrator fee	Investment management fee	Maximum aggregate management fee
	Current	Maximum	Current	Current	
Principal - MPF Conservative Fund	0.25	1.50	0.57	0.11 - 0.13	4.00
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 Cash Fund	0.25	1.50	0.53	0.11 - 0.13	4.00
Principal Guaranteed Fund*	Nil	1.50	Nil	Nil	2.00
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 Greater China Equity Fund	0.25	1.50	0.64	0 - 0.48	3.20
Principal Dynamic Asian Bond Fund	0.25	1.50	0.65	0 - 0.43	3.20
Principal Dynamic Hong Kong Equity Fund	0.25	1.50	0.86	0 - 0.48	2.00
Principal - Hang Seng Index Tracking Fund	0.25	1.50	0.58	0.06	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.

* This Constituent Fund was terminated on 26 October 2023.

PRINCIPAL MPF - SMART PLAN

NOTES TO FINANCIAL STATEMENTS

31 December 2023

5. RELATED PARTY TRANSACTIONS (continued)

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

	Constituent Fund Level (% p.a. of net assets value)				
	2022				
	Sponsor fee		Trustee and administrator fee	Investment management fee	Maximum aggregate management fee
	Current	Maximum	Current	Current	
Principal - MPF Conservative Fund	0.25	1.50	0.57	0.11 - 0.13	4.00
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 Cash Fund	0.25	1.50	0.53	0.11 - 0.13	4.00
Principal Guaranteed Fund	Nil	1.50	Nil	Nil	2.00
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 Greater China Equity Fund	0.25	1.50	0.64	0 - 0.48	3.20
Principal Dynamic Asian Bond Fund	0.25	1.50	0.65	0 - 0.43	3.20
Principal Dynamic Hong Kong Equity Fund	0.25	1.50	0.86	0 - 0.48	2.00
Principal - Hang Seng Index Tracking Fund	0.25	1.50	0.58	0.06	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.

PRINCIPAL MPF - SMART PLAN

NOTES TO FINANCIAL STATEMENTS

31 December 2023

5. 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.

PRINCIPAL MPF - SMART PLAN

NOTES TO FINANCIAL STATEMENTS

31 December 2023

5. RELATED PARTY TRANSACTIONS (continued)

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

	Principal Age 65 Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	*Principal Guaranteed Fund HK\$	Principal - Hang Seng Index Tracking Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$
For the year ended 31 December 2023															
Investment management fee	779,295	5,934,969	569,725	1,690,660	704,906	3,077,769	1,371,178	10,547,542	5,392,377	4,583,769	8,334,561	-	351,196	2,121,989	4,338,801
Sponsor fee	-	4,496,189	1,294,830	-	418,491	1,923,606	878,960	6,592,214	2,963,496	2,439,732	6,314,061	-	1,463,318	4,822,702	3,286,970
Trustee and administrator fee	1,558,589	17,804,907	2,745,039	3,381,320	1,088,075	7,694,424	2,707,199	26,368,854	7,586,550	8,392,679	25,003,682	-	3,394,896	10,995,761	13,016,403
As at 31 December 2023															
Investment management fee payable	72,697	495,408	49,142	158,086	61,334	263,259	124,897	906,649	402,414	341,278	704,382	-	27,482	520,411	365,758
Sponsor fee payable	-	375,309	111,686	-	36,413	164,537	80,062	592,736	221,155	181,647	533,623	-	114,509	782,683	277,089
Trustee and administrator fee payable	145,395	1,486,225	236,775	316,173	94,673	658,146	246,591	2,370,944	566,157	624,865	2,113,146	-	265,661	1,831,219	1,097,274
	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal Guaranteed Fund HK\$	Principal - Hang Seng Index Tracking Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$
For the year ended 31 December 2022															
Investment management fee	725,502	6,081,953	568,399	1,503,200	719,451	3,242,343	1,379,239	10,755,269	5,757,563	4,796,415	8,328,522	-	327,067	2,132,390	4,524,753
Sponsor fee	-	4,607,541	1,291,817	-	427,125	2,026,464	884,128	6,427,170	3,164,192	2,552,915	6,309,486	-	1,362,779	4,739,252	3,427,843
Trustee and administrator fee	1,451,005	18,245,861	2,738,652	3,006,400	1,110,528	8,105,857	2,723,113	25,708,680	8,100,331	8,782,025	24,985,566	-	3,161,647	10,817,994	13,574,258
As at 31 December 2022															
Investment management fee payable	59,208	473,158	47,196	123,616	56,376	247,242	108,181	798,969	439,313	379,101	652,305	-	27,828	471,944	352,335
Sponsor fee payable	-	358,453	107,265	-	33,469	154,526	69,347	499,356	241,434	201,778	494,170	-	115,949	1,072,600	266,921
Trustee and administrator fee payable	118,415	1,419,475	227,401	247,233	87,021	618,105	213,588	1,997,422	618,071	694,116	1,956,915	-	269,001	2,445,528	1,057,005

* This Constituent Fund was terminated on 26 October 2023.

PRINCIPAL MPF - SMART PLAN

NOTES TO FINANCIAL STATEMENTS

31 December 2023

6. INVESTMENT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

		2023															Total
		Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	*Principal Guaranteed Fund HK\$	Principal - Hang Seng Index Tracking Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$	Total HK\$
Collective investment schemes																	
Listed securities	-	-	-	-	-	-	-	-	-	-	-	-	-	551,824,269	-	-	551,824,269
Unit trust	345,496,964	1,799,962,673	524,082,752	754,060,959	171,182,421	797,789,017	381,440,753	2,840,491,248	1,065,427,255	874,105,985	2,565,412,544	-	-	3,795,744,140	1,323,350,762	17,238,547,473	
Total	<u>345,496,964</u>	<u>1,799,962,673</u>	<u>524,082,752</u>	<u>754,060,959</u>	<u>171,182,421</u>	<u>797,789,017</u>	<u>381,440,753</u>	<u>2,840,491,248</u>	<u>1,065,427,255</u>	<u>874,105,985</u>	<u>2,565,412,544</u>	<u>-</u>	<u>-</u>	<u>3,795,744,140</u>	<u>1,323,350,762</u>	<u>17,790,371,742</u>	
		2022															Total
		Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal Guaranteed Fund HK\$	Principal - Hang Seng Index Tracking Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$	Total HK\$
Collective investment schemes																	
Listed securities	-	-	-	-	-	-	-	-	-	-	-	-	-	564,522,242	-	-	564,522,242
Unit trust	283,213,756	1,739,391,592	519,521,926	594,966,874	159,546,670	740,209,974	332,551,725	2,394,000,968	1,171,060,343	993,760,538	2,402,500,447	2,711,657,405	-	1,475,146,356	1,290,788,998	16,808,317,572	
Total	<u>283,213,756</u>	<u>1,739,391,592</u>	<u>519,521,926</u>	<u>594,966,874</u>	<u>159,546,670</u>	<u>740,209,974</u>	<u>332,551,725</u>	<u>2,394,000,968</u>	<u>1,171,060,343</u>	<u>993,760,538</u>	<u>2,402,500,447</u>	<u>2,711,657,405</u>	<u>-</u>	<u>1,475,146,356</u>	<u>1,290,788,998</u>	<u>17,372,839,814</u>	

* This Constituent Fund was terminated on 26 October 2023.

PRINCIPAL MPF - SMART PLAN

NOTES TO FINANCIAL STATEMENTS

31 December 2023

7. CASH AND CASH EQUIVALENTS

2023																	
Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Accumulation Fund HK\$	Principal Core Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	*Principal Guaranteed Fund HK\$	Principal - Hang Seng Index Tracking Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$	Scheme Level HK\$	Total HK\$	
Cash at banks	-	-	-	2,729,508	-	-	-	-	-	-	-	2,471,048	-	-	91,159,864	96,360,420	
2022																	
Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Accumulation Fund HK\$	Principal Core Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal Guaranteed Fund HK\$	Principal - Hang Seng Index Tracking Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$	Scheme Level HK\$	Total HK\$	
Cash at banks	-	-	-	2,556,643	-	-	-	-	-	-	-	2,003,038	-	-	86,651,626	91,211,307	

* This Constituent Fund was terminated on 26 October 2023.

PRINCIPAL MPF - SMART PLAN

NOTES TO FINANCIAL STATEMENTS

31 December 2023

8. UNITS IN ISSUE

	2023														
	Principal Age 65 Plus Fund	Principal Balanced Fund	Principal Cash Fund	Principal Core Accumulation Fund	Principal Dynamic Asian Bond Fund	Principal Dynamic Asia Pacific Equity Fund	Principal Dynamic Global Bond Fund	Principal Dynamic Global Equity Fund	Principal Dynamic Greater China Equity Fund	Principal Dynamic Hong Kong Equity Fund	Principal Growth Fund	*Principal Guaranteed Fund	Principal - Hang Seng Index Tracking Fund	Principal - MPF Conservative Fund	Principal Stable Fund
Balance at 1 January 2023	27,155,336.8041	95,838,636.9309	45,692,754.4854	48,817,545.5215	17,486,200.0316	58,795,190.4415	40,614,705.5564	156,261,498.9549	62,444,277.9434	103,794,582.9798	124,021,753.1358	N/A	58,486,312.1725	133,218,156.5675	84,066,322.2648
Issued during the year	12,511,535.5999	11,875,909.6759	14,663,972.9408	19,152,146.2620	5,125,407.4903	10,869,591.2655	15,816,649.5682	28,299,167.8190	17,693,843.6891	30,320,453.9751	17,681,016.5450	N/A	30,315,763.3616	261,945,635.9763	13,726,393.1833
Redeemed during the year	(8,958,920.4378)	(14,466,016.4184)	(15,852,766.0288)	(13,850,796.4582)	(4,798,469.4346)	(11,005,952.6480)	(11,466,824.6630)	(28,728,772.9726)	(16,824,208.7858)	(28,381,355.4228)	(18,386,356.7794)	N/A	(24,994,549.9341)	(64,448,824.1304)	(15,627,871.4226)
Balance at 31 December 2023	<u>30,707,951.9662</u>	<u>93,248,530.1884</u>	<u>44,503,961.3974</u>	<u>54,118,895.3253</u>	<u>17,813,138.0873</u>	<u>58,658,829.0590</u>	<u>44,964,530.4616</u>	<u>155,831,893.8013</u>	<u>63,313,912.8467</u>	<u>105,733,681.5321</u>	<u>123,316,412.9014</u>	<u>N/A</u>	<u>63,807,525.6000</u>	<u>330,714,968.4134</u>	<u>82,164,844.0255</u>

	2022														
	Principal Age 65 Plus Fund	Principal Balanced Fund	Principal Cash Fund	Principal Core Accumulation Fund	Principal Dynamic Asian Bond Fund	Principal Dynamic Asia Pacific Equity Fund	Principal Dynamic Global Bond Fund	Principal Dynamic Global Equity Fund	Principal Dynamic Greater China Equity Fund	Principal Dynamic Hong Kong Equity Fund	Principal Growth Fund	Principal Guaranteed Fund	Principal - Hang Seng Index Tracking Fund	Principal - MPF Conservative Fund	Principal Stable Fund
Balance at 1 January 2022	25,514,372.1101	98,001,539.5940	46,115,937.6064	44,726,038.4573	18,218,009.6455	59,262,438.2434	41,173,566.3877	156,426,763.7364	61,723,985.8697	96,280,814.8148	125,331,650.4480	N/A	48,464,597.5569	125,317,763.5380	86,052,789.4672
Issued during the year	10,932,760.7607	10,905,065.6992	17,040,139.9238	17,111,907.4085	4,738,929.0429	10,054,341.9000	11,601,884.0779	26,787,419.0271	20,338,477.4462	36,704,421.3318	15,577,048.0386	N/A	38,081,594.1246	58,265,150.2112	13,028,572.0487
Redeemed during the year	(9,291,796.0667)	(13,067,968.3623)	(17,463,323.0448)	(13,020,400.3443)	(5,470,738.6568)	(10,521,589.7019)	(12,160,744.9092)	(26,952,683.8086)	(19,618,185.3725)	(29,190,653.1668)	(16,886,945.3508)	N/A	(28,059,879.5090)	(50,364,757.1817)	(15,015,039.2511)
Balance at 31 December 2022	<u>27,155,336.8041</u>	<u>95,838,636.9309</u>	<u>45,692,754.4854</u>	<u>48,817,545.5215</u>	<u>17,486,200.0316</u>	<u>58,795,190.4415</u>	<u>40,614,705.5564</u>	<u>156,261,498.9549</u>	<u>62,444,277.9434</u>	<u>103,794,582.9798</u>	<u>124,021,753.1358</u>	<u>N/A</u>	<u>58,486,312.1725</u>	<u>133,218,156.5675</u>	<u>84,066,322.2648</u>

* This Constituent Fund was terminated on 26 October 2023.

PRINCIPAL MPF - SMART PLAN

NOTES TO FINANCIAL STATEMENTS

31 December 2023

9. CONTRIBUTIONS RECEIVED AND RECEIVABLE

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

	2023 HK\$	2022 HK\$
From employers		
- mandatory	495,704,933	514,576,714
- additional voluntary	362,670,385	346,778,897
From members		
- mandatory	440,937,777	454,144,758
- additional voluntary	20,089,738	20,948,704
	<u>1,319,402,833</u>	<u>1,336,449,073</u>
Transfer in from		
- other schemes	217,428,780	205,664,241
- same scheme	894,490,188	706,960,152
	<u>1,111,918,968</u>	<u>912,624,393</u>
Switching in	3,919,273,068	2,074,972,195
Others	<u>59,903,048</u>	<u>47,673,969</u>
Proceeds on issue of units	<u>6,410,497,917</u>	<u>4,371,719,630</u>

10. WITHDRAWALS PAID AND PAYABLE

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

	2023 HK\$	2022 HK\$
Benefits	519,905,433	430,877,683
Transfers out	2,074,897,543	1,693,404,947
Forfeitures	121,937,089	28,364,677
Switching out	3,919,258,678	2,074,972,180
Others	<u>207,329,391</u>	<u>2,391,582</u>
Payments on redemption of units	<u>6,843,328,134</u>	<u>4,230,011,069</u>

11. TAXATION

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

PRINCIPAL MPF - SMART PLAN

NOTES TO FINANCIAL STATEMENTS

31 December 2023

12. SOFT COMMISSION ARRANGEMENTS

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

13. FEES, CHARGES AND EXPENSES

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

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

PRINCIPAL MPF - SMART PLAN

NOTES TO FINANCIAL STATEMENTS

31 December 2023

14. PAYMENTS CHARGED TO DEFAULT INVESTMENT STRATEGY CONSTITUENT FUNDS

Year ended 31 December 2023

	Principal Age 65 Plus Fund		Principal Core Accumulation Fund	
	HK\$	% of net assets#	HK\$	% of net assets#
Payments for out-of-pocket expenses				
- Auditor's fees	15,167		32,020	
- Bank charges	-		-	
- Legal and professional fees	13,023		29,153	
- Miscellaneous expenses	59,865		115,591	
- Printing and postage expenses	107,758		217,728	
	<u>195,813</u>	0.06	<u>394,492</u>	0.06
Payments for service				
- Investment management fee	779,295		1,690,660	
- Trustee and administrator fee	1,558,589		3,381,320	
	<u>2,337,884</u>		<u>5,071,980</u>	
Other payments				
- Legal and professional fees (non-recurring)	-		-	
	<u>2,533,697</u>		<u>5,466,472</u>	

Year ended 31 December 2022

	Principal Age 65 Plus Fund		Principal Core Accumulation Fund	
	HK\$	% of net assets#	HK\$	% of net assets#
Payments for out-of-pocket expenses				
- Auditor's fees	1,992		3,750	
- Bank charges	-		-	
- Legal and professional fees	1,581		3,027	
- Miscellaneous expenses	58,048		105,272	
- Printing and postage expenses	5,487		14,020	
	<u>67,108</u>	0.02	<u>126,069</u>	0.02
Payments for service				
- Investment management fee	725,502		1,503,200	
- Trustee and administrator fee	1,451,005		3,006,400	
	<u>2,176,507</u>		<u>4,509,600</u>	
Other payments				
- Legal and professional fees (non-recurring)	-		-	
	<u>2,243,615</u>		<u>4,635,669</u>	

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

PRINCIPAL MPF - SMART PLAN

NOTES TO FINANCIAL STATEMENTS

31 December 2023

15. MARKETING EXPENSES

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

16. 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.

17. COMMITMENTS

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

18. CONTINGENT LIABILITIES

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

19. 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.

20. MARKET VALUE ADJUSTMENT

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

PRINCIPAL MPF - SMART PLAN

NOTES TO FINANCIAL STATEMENTS

31 December 2023

21. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets

	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	17,790,371,742	-	17,790,371,742	17,372,839,814	-	17,372,839,814
Contributions receivable	-	107,466,828	107,466,828	-	112,414,002	112,414,002
Subscriptions in transit	-	91,528,541	91,528,541	-	91,033,221	91,033,221
Accounts receivable	-	81,206,856	81,206,856	-	130,655,481	130,655,481
Cash and cash equivalents	-	96,360,420	96,360,420	-	91,211,307	91,211,307
	<u>17,790,371,742</u>	<u>376,562,645</u>	<u>18,166,934,387</u>	<u>17,372,839,814</u>	<u>425,314,011</u>	<u>17,798,153,825</u>

Financial liabilities

	2023	2022
	At amortised cost HK\$	At amortised cost HK\$
Amounts pending for allocation	55,762,461	70,493,165
Amounts payable on redemptions	126,998,127	78,430,929
Amounts payable to brokers	26,464,848	40,198,197
Accrued expenses and other payables	<u>35,612,298</u>	<u>81,516,674</u>
	<u>244,837,734</u>	<u>270,638,965</u>

22. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

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

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 2022, all financial instruments of the Scheme carried at fair value were investments in listed security and unit trust which fall into Level 1 and Level 2 of the fair value hierarchy respectively.

31 December 2023

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

(a) Market risk

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

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

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

Currency risk

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

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

31 December 2023

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Market risk (continued)

Interest rate risk

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

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

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

Other price risk

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

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

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

PRINCIPAL MPF - SMART PLAN

NOTES TO FINANCIAL STATEMENTS

31 December 2023

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Market risk (continued)

Other price risk sensitivity analysis

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

	2023														
	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	*Principal Guaranteed Fund HK\$	Principal - Hang Seng Index Tracking Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$
Overall market exposure	345,496,964	1,799,962,673	524,082,752	754,060,959	171,182,421	797,789,017	381,440,753	2,840,491,248	1,065,427,255	874,105,985	2,565,412,544	-	551,824,269	3,795,744,140	1,323,350,762
% change in prices	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	-	10%	10%	10%
Change in NAV	34,549,696	179,996,267	52,408,275	75,406,096	17,118,242	79,778,902	38,144,075	284,049,125	106,542,726	87,410,599	256,541,254	-	55,182,427	379,574,414	132,335,076
	2022														
	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal Guaranteed Fund HK\$	Principal - Hang Seng Index Tracking Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$
Overall market exposure	283,213,756	1,739,391,592	519,521,926	594,966,874	159,546,670	740,209,974	332,551,725	2,394,000,968	1,171,060,343	993,760,538	2,402,500,447	2,711,657,405	564,522,242	1,475,146,356	1,290,788,998
% change in prices	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	
Change in NAV	28,321,376	173,939,159	51,952,193	59,496,687	15,954,667	74,020,997	33,255,173	239,400,097	117,106,034	99,376,054	240,250,045	271,165,741	56,452,224	147,514,636	129,078,900

* This Constituent Fund was terminated on 26 October 2023.

31 December 2023

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Credit risk

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

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

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

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

Financial assets subject to HKFRS 9's impairment requirements

The Scheme's financial assets subject to the ECL model within HKFRS 9 are only short-term trade receivables, cash and cash equivalent and others. At 31 December 2023, the total of short-term trade receivables, cash and cash equivalent and others was HK\$376,562,645 which no loss allowance had been provided (31 December 2022: total of HK\$425,314,011 on which no loss allowance 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: contributions receivable, subscriptions in transit and accounts receivable.

Financial assets not subject to HKFRS 9's impairment requirements

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

PRINCIPAL MPF - SMART PLAN

NOTES TO FINANCIAL STATEMENTS

31 December 2023

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Liquidity risk

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

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

Constituent Funds

At 31 December 2023

	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$
Non-derivative financial liabilities								
<u>Less than 1 month</u>								
Amounts payable on redemptions	1,288,574	7,706,998	3,901,128	3,651,146	39,189	4,549,406	1,838,442	16,557,459
Amounts payable to brokers	1,268,169	350,622	551,171	1,804,046	296,783	559,928	3,596,422	5,495,289
Accrued expenses and other payables	560,143	2,863,396	538,044	1,215,064	237,355	1,238,317	522,169	4,303,442
<u>Repayable on demand</u>								
Net assets available for benefits	346,943,636	1,799,573,407	527,118,589	758,171,130	173,906,391	798,229,699	385,923,929	2,841,746,187
	<u>350,060,522</u>	<u>1,810,494,423</u>	<u>532,108,932</u>	<u>764,841,386</u>	<u>174,479,718</u>	<u>804,577,350</u>	<u>391,880,962</u>	<u>2,868,102,377</u>
	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	*Principal Guaranteed Fund HK\$	Principal - Hang Seng Index Tracking Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$	Total HK\$
Non-derivative financial liabilities								
<u>Less than 1 month</u>								
Amounts payable on redemptions	7,082,539	3,979,120	14,591,432	-	693,190	30,205,720	6,148,939	102,233,282
Accounts payable to brokers	969,709	1,317,670	1,100,985	-	662,070	8,244,956	247,028	26,464,848
Accrued expenses and other payables	1,387,086	1,373,457	3,862,547	-	758,352	4,075,561	2,044,807	24,979,740
<u>Repayable on demand</u>								
Net assets available for benefits	1,063,470,657	875,892,330	2,564,725,132	-	553,019,574	3,803,179,033	1,322,730,131	17,814,629,825
	<u>1,072,909,991</u>	<u>882,562,577</u>	<u>2,584,280,096</u>	<u>-</u>	<u>555,133,186</u>	<u>3,845,705,270</u>	<u>1,331,170,905</u>	<u>17,968,307,695</u>

* This Constituent Fund was terminated on 26 October 2023.

PRINCIPAL MPF - SMART PLAN

NOTES TO FINANCIAL STATEMENTS

31 December 2023

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Liquidity risk (continued)

Constituent Funds (continued)

At 31 December 2022

	Principal Age 65 Plus Fund HK\$	Principal Balanced Fund HK\$	Principal Cash Fund HK\$	Principal Core Accumulation Fund HK\$	Principal Dynamic Asian Bond Fund HK\$	Principal Dynamic Asia Pacific Equity Fund HK\$	Principal Dynamic Global Bond Fund HK\$	Principal Dynamic Global Equity Fund HK\$
Non-derivative financial liabilities								
<u>Less than 1 month</u>								
Amounts payable on redemptions	3,968,076	1,842,693	3,869,531	7,094,013	213,589	1,340,930	283,548	10,185,713
Amounts payable to brokers	2,804,673	652,472	293,289	7,584,244	333,751	2,086,723	949,770	4,128,456
Accrued expenses and other payables	838,781	7,207,200	1,331,202	1,784,380	448,783	5,800,348	2,166,789	13,435,371
<u>Repayable on demand</u>								
Net assets available for benefits	284,698,739	1,740,133,369	521,985,076	596,988,746	162,413,501	741,145,410	334,253,029	2,395,489,118
	<u>292,310,269</u>	<u>1,749,835,734</u>	<u>527,479,098</u>	<u>613,451,383</u>	<u>163,409,624</u>	<u>750,373,411</u>	<u>337,653,136</u>	<u>2,423,238,658</u>
	Principal Dynamic Greater China Equity Fund HK\$	Principal Dynamic Hong Kong Equity Fund HK\$	Principal Growth Fund HK\$	Principal Guaranteed Fund HK\$	Principal - Hang Seng Index Tracking Fund HK\$	Principal - MPF Conservative Fund HK\$	Principal Stable Fund HK\$	Total HK\$
Non-derivative financial liabilities								
<u>Less than 1 month</u>								
Amounts payable on redemptions	7,275,120	13,179,753	1,667,319	-	3,486,226	11,282,588	4,827,428	70,516,527
Accounts payable to brokers	6,656,449	9,372,157	1,690,452	-	-	1,007,818	2,637,943	40,198,197
Accrued expenses and other payables	3,897,850	3,898,369	10,223,195	-	1,850,643	15,115,400	5,274,304	73,272,615
<u>Repayable on demand</u>								
Net assets available for benefits	1,177,770,058	1,000,015,132	2,404,312,245	2,711,657,405	571,584,924	1,481,172,375	1,291,481,731	17,415,100,858
	<u>1,195,599,477</u>	<u>1,026,465,411</u>	<u>2,417,893,211</u>	<u>2,711,657,405</u>	<u>576,921,793</u>	<u>1,508,578,181</u>	<u>1,304,221,406</u>	<u>17,599,088,197</u>

PRINCIPAL MPF - SMART PLAN

NOTES TO FINANCIAL STATEMENTS

31 December 2023

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Liquidity risk (continued)

The Scheme

	<u>Repayable on demand</u> HK\$	<u>Less than 1 month</u> HK\$
At 31 December 2023		
Amounts pending for allocation	-	55,762,461
Amounts payable on redemptions	-	24,764,845
Accrued expenses and other payables	-	10,632,558
Net assets available for benefits	<u>107,466,828</u>	<u>-</u>
	<u>107,466,828</u>	<u>91,159,864</u>
	<u>Repayable on demand</u> HK\$	<u>Less than 1 month</u> HK\$
At 31 December 2022		
Amounts pending for allocation	-	70,493,165
Amounts payable on redemptions	-	7,914,402
Accrued expenses and other payables	-	8,244,059
Net assets available for benefits	<u>112,414,002</u>	<u>-</u>
	<u>112,414,002</u>	<u>86,651,626</u>

(d) Specific instruments

Derivatives

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

24. 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 - Smart Plan**

We have audited the financial statements of Principal MPF - Smart 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.



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

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

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

Auditor's Responsibility

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

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

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

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

Opinion

Based on the foregoing:

1. in our opinion:
 - (a) proper accounting and other records have been kept during the year ended 31 December 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 - Smart 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.

A handwritten signature in black ink, appearing to read 'Eyt a Yoz'.

Certified Public Accountants
Hong Kong
25 June 2024