

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

This notice should be read by all participating employers, employee members, self-employed persons, SVC members and personal account members of Principal MPF – Smart Plan (collectively, "Scheme Participants").

Principal Trust Company (Asia) Limited ("PTC (Asia)", "we", "us" or "our") accepts responsibility for the information contained in this notice having made all reasonable enquiries that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

Terms used in this notice have the same meaning as in the latest version of the MPF Scheme Brochure of the Principal MPF – Smart Plan (the "Plan"), unless otherwise defined.

This table summarises the change to the Plan, which is elaborated in the main body of this notice:

What is the Termination (as defined below)?

(a) Termination of the Principal Guaranteed Fund

The Principal Guaranteed Fund (the "PGF" or the "Terminating CF") currently invests into the Principal Guaranteed Fund Policy (the "Policy") issued by Principal Insurance Company (Hong Kong) Limited (the "Insurer"). The Trustee has been informed by the Insurer that it has decided to terminate the Policy as part of its internal restructuring to demise its guaranteed fund offerings, as suggested by the internal assessment of solvency and sustainability. After being notified of the Insurer's decision to terminate the Policy, the Trustee has researched and tried to find other alternative. Unfortunately, there is no similar insurance policy with guaranteed elements provided by other insurance companies in the market. The Trustee therefore has concluded that terminating the Terminating CF (the "Termination") is the only viable option.

The Termination is permitted under clause 4.1 of the master trust deed (the "Master Trust Deed"). Pursuant to clause 4.1, we hereby give not less than one month's notice to the Scheme Participants in relation to the termination of the Terminating CF, which will take effect on 26 October 2023 (the "Effective Date"). If you do not switch out of the Terminating CF at or before 4:00 p.m. on or before 25 October 2023 (i.e. the Cut-off Deadline), on the Effective Date the redemption proceeds of the Terminating CF will be used to purchase units in the Principal – MPF Conservative Fund (the "Default CF") whereby the Default CF, which is not a guaranteed fund, has similar investment objectives as the Terminating CF. For details please refer to paragraph 1.

***Note:** Under the current guarantee mechanism of the PGF, the Policy in which the PGF invests offers a guarantee given by Principal Insurance Company (Hong Kong) Limited (the "Sponsor") on amounts invested in the Policy (net of contribution charges and offer spread, if any). Per scenario (b) of Appendix 1 to the MPF Scheme Brochure, upon the occurrence of the termination of the Policy by the Sponsor, the Sponsor guarantees that the amount payable under the Policy for the Scheme Participant shall be the greater of the amount in HKD invested in the Policy (net of contribution charges and offer spread, if any as set out in the fee table in section 5.1 of the MPF Scheme Brochure) for that Scheme*

Participant and the Adjusted Balance (as defined in the MPF Scheme Brochure). Accordingly, Scheme Participants will be entitled to the guarantee offered under the PGF even if they withdraw their accrued benefits prior to the Effective Date. For details please refer to paragraph 1.

How will the Termination impact the Scheme Participants?

- (b) We are of the view that the Termination will not have any adverse impact on the Scheme Participants, and that the interests of the Scheme Participants will be adequately protected by investing in the Default CF and other constituent funds under the Plan.
- (c) The cost of the termination of the Terminating CF will be borne by us. As such, no expenses relating to the Termination will be borne by the Scheme Participants or the Plan. Upon the Termination, no guarantee fund will be offered under the Plan.

Actions to be taken

- (d) No action is required of Scheme Participants to effect the Termination. However,
 - (i) a Scheme Participant who is an employee member, self-employed person, SVC member or personal account member who does not wish to be involved in the Termination may (a) switch his/her existing investment in the Terminating CF to other constituent fund(s) under the Plan, and/or (b) change his/her investment mandate in respect of any new contributions and transfer-in benefits relating to the Terminating CF;
 - (ii) a Scheme Participant (other than an employee member) who does not wish to be involved in the Termination may opt out of the Plan; and
 - (iii) a Scheme Participant who is an employee member may transfer his/her accrued benefits derived from the employee's mandatory contributions under the employee choice arrangement once in every calendar year.

For details please refer to paragraph 5.

- (e) Scheme Participants may also wish to attend the seminars to be organised by us. Such seminars will take place at least two months before the Effective Date.

Contact details

- (f) If Scheme Participants have any queries in relation to the changes set out in this notice, they may contact our Customer Service Hotline at 2802 2812 or 2885 8011.

Dear Scheme Participants,

Changes to the Plan

Thank you for your continuous support. We would like to inform you of the following change in respect of the Plan.

1. Termination of the Terminating CF

- 1.1. The PGF currently invests into the Policy issued by the Insurer. Pursuant to clause 17.1 of the insurance policy constituting the Policy, the Insurer may terminate the Policy by giving to the policyholder (i.e the Trustee) one month's notice.

1.2. The Trustee has received the requisite notice from the Insurer for the termination of the Policy. The Trustee has been informed by the Insurer that it has decided to terminate the Policy as part of its internal restructuring to demise its guaranteed fund offerings, as suggested by the internal assessment of solvency and sustainability. As a result of the termination of the Policy, the Trustee has considered alternative arrangements for the Terminating CF (e.g. (a) potential replacement APIF for the Terminating CF; and (b) termination of the Terminating CF). After considering these alternatives from various angles and their potential impacts on the Scheme Participants, the Trustee has concluded that the Termination is the only viable option. Pursuant to clause 4.1 of the Master Trust Deed, the Trustee has obtained the agreement of the Sponsor regarding the Termination and the Trustee hereby gives not less than one month's notice to the Scheme Participants in relation to the Termination, which will take effect on the Effective Date.

Guarantee entitlement

1.3. The PGF offers the guarantee of capital, as detailed in section 3.4.6 and Appendix 1 of the MPF Scheme Brochure. Under the current guarantee mechanism of the PGF, the Policy in which the PGF invests offers a guarantee given by the Sponsor on amounts invested in the Policy (net of contribution charges and offer spread, if any). Upon the occurrence of the termination of the Policy by the Sponsor, the Sponsor guarantees that the amount payable under the Policy for the Scheme Participant shall be the greater of: (i) the Guaranteed Balance (i.e. amount in HKD invested in the Policy (net of contribution charges and offer spread, if any as set out in the fee table in section 5.1 of the MPF Scheme Brochure) for that Scheme Participant with the relevant Declared Crediting Rate (as defined in Appendix 1 to the MPF Scheme Brochure) on a daily basis) and (ii) the Adjusted Balance (as defined in Appendix 1 to the MPF Scheme Brochure). Adjusted Balance essentially means the Guaranteed Balance (as defined in Appendix 1 to the MPF Scheme Brochure) after applying a reduction. However, because rate of reduction has been set at 0% since 1 December 2015, the Adjusted Balance is effectively same as the Guaranteed Balance. Accordingly, Scheme Participants will be entitled to the guarantee offered under the PGF (i.e. the Guaranteed Balance) even if they withdraw their accrued benefits prior to the Effective Date. This is because the crediting rate for PGF is credited daily and reflected on the daily unit price. Hence, the guarantee offered applies in all circumstances. For avoidance of doubt, Scheme Participants who remain invested in the PGF prior to the Effective Date will be entitled to the guarantee offered under the PGF.

2. Default fund arrangement

2.1 Taking into consideration (i) the investment objective and policies, (ii) the risk and return profiles and (iii) the management fees, the Trustee considers that the following default fund under the Plan would offer a comparable alternative to the Scheme Participants. Please refer to **Appendix** to this notice which sets out a more detailed comparison between the Terminating CF and the Default CF.

Terminating CF	Default CF
PGF	Principal – MPF Conservative Fund

2.2 On the Effective Date, the Trustee will redeem all units relating to the Terminating CF in cash and use the redemption proceeds to purchase the units in the Default CF which share similar investment objectives as the Terminating CF.

2.3 Under the existing clauses 4.2.3 and 4.2.4 of the Master Trust Deed, if a Scheme Participant fails to notify the Trustee of his/her switching instruction or new investment mandate prior to such date as the Trustee (with the agreement of the Sponsor) may determine after the Trustee has notified him/her of the termination of a constituent fund, he/she will be deemed to have elected to apply the redemption proceeds or future contributions and other sums paid or transferred to the Trustee to acquire units in the Principal Core Accumulation Fund and Principal Age 65 Plus Fund under the Default Investment Strategy. However, given the similarities of investment objectives between the Terminating CF and the Default CF (as detailed

in the **Appendix** to this notice), the Trustee is of the view that the Default CF is more preferable in this circumstance. The Master Trust Deed will therefore be amended to cater for the present arrangement, the amendment will be effective from 25 October 2023.

3. Transitional arrangement and suspension

3.1 The last dealing date of all instructions related to the Terminating CF, including change of investment mandate and fund switching will be 25 October 2023 (the "**Cut-off Deadline**"). The valuation of the Terminating CF will not be suspended. The details of the transitional arrangement of instructions involving the Terminating CF will be as follows:

Types of instructions that involve the Terminating CF	Instructions received at or before the relevant cut-off time on the Cut-off Deadline	Instructions received after the relevant cut-off time on the Cut-off Deadline
Fund switching and change of investment mandate instructions that involve the Terminating CF	<p>Should the relevant valid and duly completed instructions be received on or before 25 October 2023 at or before 4:00 p.m. for paper, fax and online service portal instructions on the Cut-off Deadline*, such instructions will be processed under the Trustee's normal service benchmark.</p> <p><i>*Mobile app and Interactive Voice Response System are not available to the Plan</i></p>	<p>Fund switching instructions involving the Terminating CF will be rejected, except with respect to fund switching instruction not involving the Terminating CF which will be processed under the Trustee's normal service benchmark.</p> <p>Change of investment mandate instructions involving the Terminating CF will be rejected, except with respect to change of investment mandate instructions to a constituent fund not being the Terminating CF which will be processed under the Trustee's normal service benchmark.</p> <p>The Trustee will endeavor to call affected Scheme Participants or issue rejection letters/email to the affected Scheme Participants by end of October 2023, save for those untraceable Scheme Participants whom the Trustee is unable to contact.</p>

3.2 Paper submission of instructions should be posted to the Trustee at 30/F, Millennium City 6, 392 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong; instructions through fax can be submitted to 2827 1707, where applicable.

3.3 For the avoidance of doubt, immediately after 4:00 p.m. (Hong Kong time) on the Cut-off Deadline, the Terminating CF will cease to be available for selection on the fund list for fund switching via online service portal.

3.4 Under clauses 6.1.3 and 6.3 of the Master Trust Deed and section 7.2 of the MPF Scheme Brochure, the suspension of subscription for and redemption from a constituent fund may only occur together with the suspension of determination of the net asset value of the constituent fund. However, in effecting the

Termination, all subscription for and redemption from the Terminating CF will be suspended while the determination of the net asset value of the Terminating CF will continue (please refer to paragraph 3.5 below for details). The Master Trust Deed and the MPF Scheme Brochure will therefore be amended to provide the Trustee the flexibility to declare a suspension of issuance, realization or switching of units relating to a constituent fund without a suspension of the determination of the net asset value of the constituent fund.

- 3.5 With respect to Scheme Participants with accrued benefits invested in and/or investment mandate for investments in the Terminating CF immediately prior to the Effective Date, fund switching and change of investment mandate for future assets in respect of the Terminating CF will not be available and will be suspended from 26 October 2023 to 27 October 2023 (the "**suspension period**"). This suspension period is for the Trustee to process and settle all the fund switching and change of investment mandate dealing instructions to the Terminating CF, as well as settle all liabilities and finalise the books of the Terminating CF for the Termination. The determination of the net asset value of the Terminating CF will continue and will not be affected by the suspension. The Trustee believes that the suspension period of two business days is necessary and reasonable to ensure the transitional arrangements can be accurately and properly carried out in the Scheme Participants' interests. For the avoidance of doubt, (i) Scheme Participants with no accrued benefits invested in and/or investment mandate for investments in the Terminating CF; or (ii) fund switching and change of investment mandate for future assets in respect of constituent fund(s) other than the Terminating CF, will not be affected by the abovementioned suspension.
- 3.6 Following the completion of the Termination on the Effective Date, the Trustee will perform checking procedures (e.g. reconciliation of affected Scheme Participants' unitholdings) from the Effective Date to 30 October 2023 9:00 a.m. (both dates inclusive) for the protection of Scheme Participants' interests. As such, during such period, Scheme Participants with accrued benefits and/or investment mandate in the Terminating CF immediately prior to the Effective Date may access the online account but only to enquire the total balance at Scheme Participant level. However, these affected Scheme Participants may still submit investment mandate forms via mail/e-mail/handing in/facsimile to make fund switching or change of investment mandate requests in respect of constituent fund(s) other than the Terminating CF. Such requests so received will be processed as per usual practice and free of charge.
- 3.7 If a Scheme Participant submits the old version of a member enrolment form after the Effective Date and chooses to invest in the Terminating CF, the Trustee will treat it as an invalid investment option and the Trustee will call such scheme participant to notify him/her of the invalid investment option and that all the future mandate will be allocated to the default investment strategy under the Plan unless the Scheme Participant subsequently varies his/her investment options. The Trustee will send follow up letters to Scheme Participants who submit old version of member enrolment forms with invalid investment options. That said, for the avoidance of doubt, the Trustee will proceed with setting up future mandate for Scheme Participants who have not selected the Terminating CF in the completed old versions of member enrolment forms they submitted. If the Trustee receives incomplete member enrolment forms, the Trustee will reject such forms and follow up with the Scheme Participants to request a complete member enrolment form. The Trustee will continue to accept old version of completed member enrolment forms with complete and valid investment options until 30 April 2024. The Trustee will reject all old member enrolment forms from 30 April 2024 onwards regardless of whether the old member forms is completed and whether any of the Terminating CF is selected. As soon as the Trustee receives such old member enrolment forms after 30 April 2024, the Trustee will within three weeks follow up by phone call, email or a follow-up letter with the relevant scheme participants to request them to submit a completed new version member enrolment form. The Trustee will provide and make available new version member enrolment forms (with the Terminating CF removed) online and in paper forms from the Effective Date onwards.

4. Consequences of the Termination and impact on Scheme Participants

- 4.1 The Scheme Participants investing in the Terminating CF immediately before the Effective Date (i.e. those who do not exercise their rights to switch out of the Terminating CF) will become investing in the Default CF on and after the Effective Date.

- 4.2 In addition, if the Scheme Participants do not exercise their rights to change their investment mandate by the relevant cut-off time on the Cut-off Deadline under paragraph 3.1 above, any future contribution payment/transfer-in benefits received in respect of such Scheme Participants that would have been invested in the Terminating CF (had it not been transferred to the Default CF) will be invested in the Default CF.
- 4.3 If the Scheme Participants exercise their rights to switch or change their investment mandate instructions to other constituent funds under the Plan (the "**Transferee CFs**") by the relevant cut-off time on the Cut-off Deadline under paragraph 3.1 above, such instruction will be processed under the Trustee's normal service benchmark.
- 4.4 On the Effective Date, the number of units (including any fraction of units) in the Default CF or the Transferee CFs (as the case may be) to be allocated in respect of each Scheme Participant concerned will be calculated by dividing the total value of holdings (taking into account the guarantee entitled) of the Terminating CF attributable to the Scheme Participant as at the Effective Date by the unit price of the Default CF or the Transferee CFs (as the case may be) as at the Effective Date. Because the unit price of the Terminating CF may differ from that of the Default CF or Transferee CFs (as the case may be), the number of units in the Default CF or Transferee CFs (as the case may be) allocated in respect of a Scheme Participant immediately after the Effective Date may not be the same as the number of units in the Terminating CF attributable to the Scheme Participant immediately before the Effective Date. Rest assured that the switch out amount of a Scheme Participant investing in the Terminating CF on the Effective Date will be the same as the switch in amount of the Default CF or Transferee CF(s) (as the case may be).
- 4.5 We will liaise with all service providers such as the investment manager, and custodian of the Plan and the related constituent funds to ensure proper arrangements (including but not limited to administrative and operational arrangements) are put in place for the transition and a smooth transfer of accrued benefits of the Scheme Participants from the Terminating CF to the Default CF or the Transferee CFs (as the case may be) as the Scheme Participants may instruct. There will be no bid and offer spreads or other transaction costs in relation to the redemptions of the units of the Terminating CF and the subsequent subscriptions in the units of the Default CF or the Transferee CFs (as the case may be).
- 4.6 There will be no fees or penalty, bid/offer spread or transfer fee imposed on any transfer out of the Plan or switching/change of investment mandate instructions described in this section 4. The cost of the termination of the Terminating CF is estimated to be around HK\$3.5 million and will be borne by us. As such, no expenses relating to the Termination will be borne by the Scheme Participants or the Plan.

5. Opt out of the Plan

- 5.1 No action is required of Scheme Participants to effect the Termination.
- 5.2 A Scheme Participant who is an employee member, self-employed person, SVC member or personal account member who does not wish to be involved in the Termination may (i) switch his/her existing investment in the Terminating CF to other constituent fund(s) under the Plan, and/or (ii) change his/her investment mandate in respect of any new contributions and transfer-in benefits relating to the Terminating CF by submitting to the Trustee a validly completed instruction as per sub-sections "6.4 Mandates to invest" and "6.6 Switching instructions" of the MPF Scheme Brochure. In particular, Scheme Participants should refer to the "required time to complete (after the date of receipt of complete instruction)" relating to switching instructions as set out in the "Trustee Service Comparative Platform" in the Mandatory Provident Fund Schemes Authority's website before submitting the switching instruction.
- 5.3 In addition, a Scheme Participant (other than an employee member) who does not wish to be involved in the Termination may opt out of the Plan by giving a prior written notice in accordance with sub-section "6.9 Transfers to and from other schemes" of the MPF Scheme Brochure.

- 5.4 A Scheme Participant who is an employee member may transfer his/her accrued benefits derived from the employee's mandatory contributions under the employee choice arrangement once in every calendar year.
- 5.5 There will be no fees or penalty, bid/offer spread or transfer fee imposed on any transfer out of the Plan or switching/change of investment mandate instruction described in this paragraph 5. The Scheme Participants should review all terms and conditions under the Plan and constituent funds before making any decision.

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The MPF Scheme Brochure (will be amended by way of the Third Addendum) to reflect the Termination. You may access the updated MPF Scheme Brochure, key scheme information document of the Plan and the amended Master Trust Deed (to reflect the changes per items 2.3 and 3.4 above) on our website at www.principal.com.hk or request a copy of it by contacting our Customer Service Hotline at 2802 2812 or 2885 8011.

If you have any queries in relation to the Termination, please contact our Customer Service Hotline at 2802 2812 or 2885 8011.

Principal Trust Company (Asia) Limited

25 July 2023

Appendix

	PGF	Principal – MPF Conservative Fund
Fund type	Guaranteed fund	Money market fund
Fund structure	Feeder fund	Feeder fund
Investment objective	The PGF 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 Mandatory Provident Fund Schemes Authority ("MPFA").	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.
Investment policy	The PGF, 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.	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.
Asset allocation	Around 60% to 90% in bonds 10% to 25% in equities up to 25% in deposits	HKD denominated deposits and debt securities
Risk profile	Low	Low
Management fees	1% plus a guarantee charge of 1% at the APIF level	0.95%
Asset under management (as of 31 May 2023)	HK\$2,742 million	HK\$1,499 million