

Principal Life Style Fund

Explanatory Memorandum



Important Notes:

- (a) Principal Life Style Fund consists of sub-funds (the “Sub-Funds”) investing in equities and/or debt securities located in developed markets or in emerging markets.
- (b) Generally, emerging market investments carry higher risks due to risks associated with higher volatility, inadequate liquidity and additional regulatory risks.
- (c) Some of the Sub-Funds may carry significant risks arising from credit, counterparty and liquidity issues through investment in debt securities. Investors may suffer significant loss in the value of their investment in the Sub-Funds when portfolio holdings fall below investment grade or when counterparties default on their obligations.
- (d) Some of the Sub-Funds may have concentrated exposures in one or a select few markets making them riskier than diversified funds.
- (e) The Sub-Funds may enter into in financial futures contracts, financial option contracts and currency forward contracts for hedging purposes which may involve additional risks including market, counterparty or default risks, exposing the Sub-Funds to losses.

11 September 2020

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

Principal Asset Management Company (Asia) Limited (“PAMC (Asia)”, “we”, “us” or “our”) accepts full responsibility for the accuracy of the information contained in this Notice and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other material facts the omission of which would make any statement misleading as at the date of issuance.

Dear Unitholder,

Re: Principal Life Style Fund (信安豐裕人生基金) (the “Fund”)

Thank you for your continuous support. We would like to inform you of the following changes in respect of the Fund, which shall take immediate effect.

1. Amendment to the Explanatory Memorandum of the Fund

(i) Investment Objectives and Policies of the Principal Hong Kong Dollar Savings Fund

The investment objective and policies of the Principal Hong Kong Dollar Savings Fund has been revised for clarificatory purpose to reflect the existing investment strategy such that to achieve its investment objective, the Sub-Fund will invest primarily in a portfolio of high quality short to medium duration debt securities (rated or unrated[#]), including (but not limited to) sovereign and/or non-sovereign, floating and/or fixed, of varying maturities issued by the government or by multi-lateral agencies or by companies, and denominated in Hong Kong dollars. The types of debt securities that the Sub-Fund primarily intends to invest into are government bonds, corporate bonds/debentures, floating rate notes, bills, commercial papers and certificates of deposit. The Sub-Fund may also hold assets denominated in other currencies.

The Product Key Facts Statement of the Principal Hong Kong Dollar Savings Fund has been updated accordingly.

Investment in unrated debt securities is only limited to those issued by the “exempt authority” within the definition of Section 7 of Schedule 1 to the MPF Regulation.

(ii) Update of risk factor titled “Risks associated with debt securities”

The specific risk factor titled “Risk associated with debt securities rated below investment grade or unrated” has been updated to clarify that some of the Sub-Funds may invest in debt securities rated below investment grade (as determined by credit rating agency(ies) approved by the MPF Authority) or unrated, as may be allowed under the MPF Regulation. Such securities are generally subject to lower liquidity, higher volatility and greater risk of loss of principal and interest than high-rated debt securities, which may adversely impact the returns of the securities and in turn the net asset value of the Sub-Funds.

(iii) Changes in relation to the Restrictions on Redemption of Sub-Funds

As background, having regard to the best interests of Unitholders, the Manager is entitled, with the approval of the Trustee, to limit the total net assets value or total number of Units of any Sub-Fund redeemed on any Dealing Day (whether by sale to the Manager or by cancellation by the Trustee) to Units representing 10% of the total net asset value or the total number of Units of any Sub-Fund in issue, respectively.

The Manager would like to clarify that in practice, the Manager, with the approval of the Trustee, would opt to limit the redemption of any Sub-Fund on any Dealing Day (whether by sale to the Manager or by cancellation by the Trustee) to 10% of the latest available total net asset value of such Sub-Fund instead of 10% of the total number of Units of such Sub-Fund in issue.

(iv) Update to the section “Liquidity Risk Management”

Details of the liquidity risk management tools the Manager may utilise under the section “Liquidity Risk Management” are revised to align with the restrictions set out in the section “Restrictions on Redemption”.

2. Fees and costs in connection with the proposed changes to the Explanatory Memorandum

The fees and costs in connection with the above changes (including amendments to the Explanatory Memorandum) will be borne by the Manager.

All changes described above will not have any adverse impact on Unitholders.

* * *

The above changes are more fully discussed in the enclosed First Addendum (the “First Addendum”) to the Explanatory Memorandum. The First Addendum should be read in conjunction with and forms part of the Explanatory Memorandum. Please read the First Addendum carefully.

You may access the First Addendum and the updated Explanatory Memorandum and Product Key Facts Statement on our website at www.principal.com.hk or request a copy of it by contacting our customer service hotline at 2117 8383.

Terms used in this Notice have the same meanings as in the latest version of the Explanatory Memorandum of the Fund, unless otherwise specified in this Notice.

If you have any queries relating to the above, please contact our customer service hotline above.

Principal Asset Management Company (Asia) Limited

PRINCIPAL LIFE STYLE FUND (信安豐裕人生基金)
(the “FUND”)
First Addendum to the Explanatory Memorandum

This First Addendum forms part of the Explanatory Memorandum of the Fund dated January 2020 (the “**Explanatory Memorandum**”) and should be read in conjunction with the Explanatory Memorandum. All capitalized terms used in this First Addendum shall have the same meaning as given to them in the Explanatory Memorandum, unless the context otherwise stated.

Principal Asset Management Company (Asia) Limited accepts full responsibility for the accuracy of the information contained in this First Addendum and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other material facts the omission of which would make any statement herein misleading as at the date of issuance.

If you are in any doubt about the contents of this document, you should seek independent professional financial advice.

The following changes to the Explanatory Memorandum shall take immediate effect.

1. Page 7 of the Explanatory Memorandum – the second paragraph under “(iv) Principal Hong Kong Dollar Savings Fund” under the section headed “Investment Objectives and Policies” shall be deleted in its entirety and replaced by the following:

“To achieve its investment objective, the Sub-Fund will invest primarily in a portfolio of high quality short to medium duration debt securities (rated or unrated[#]), including (but not limited to) sovereign and/or non-sovereign, floating and/or fixed, of varying maturities issued by the government or by multi-lateral agencies or by companies, and denominated in Hong Kong dollars. The types of debt securities that the Sub-Fund primarily intends to invest into are government bonds, corporate bonds/debentures, floating rate notes, bills, commercial papers and certificates of deposit. The Sub-Fund may also hold assets denominated in other currencies.”

2. Page 12 of the Explanatory Memorandum – point (e) of the sub-section titled “Risks associated with debt securities” under the section “Risk Factors” shall be deleted in its entirety and replaced by the following:

“Risk associated with debt securities rated below investment grade or unrated – Some of the Sub-Funds may invest in debt securities rated below investment grade (as determined by credit rating agency(ies) approved by the MPF Authority) or unrated, as may be allowed under the MPF Regulation. Such securities are generally subject to lower liquidity, higher volatility and greater risk of loss of principal and interest than high-rated debt securities, which may adversely impact the returns of the securities and in turn the net asset value of the Sub-Funds.”

3. Page 22 of the Explanatory Memorandum – the following sentence shall be added after the first sentence in the second paragraph under the section headed “Restrictions on Redemption”:

“In practice, the Manager, with the approval of the Trustee, would opt to limit the redemption of any Sub-Fund on any Dealing Day (whether by sale to the Manager or by cancellation by the Trustee) to 10% of the latest available total net asset value of such Sub-Fund instead of 10% of the total number of Units of such Sub-Fund in issue.”

4. Page 37 of the Explanatory Memorandum – the first bullet point of the last paragraph under the section titled “Liquidity Risk Management” shall be deleted in its entirety and replaced by the following:

“ • the Manager may, with the approval of the Trustee, limit the total net asset value or total number of Units of any Sub-Fund redeemed on any Dealing Day (whether by sale to the Manager or by cancellation by the Trustee) to Units representing 10% of the total net asset value or the total number of Units of such Sub-Fund in issue, respectively (subject to the restrictions and actual practice set out in the section titled “Restrictions on Redemption”); and”

Except as amended by this First Addendum, the Explanatory Memorandum remains in full force and effect.

2 January 2020

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

Principal Asset Management Company (Asia) Limited (“PAMC (Asia)”, “we”, “us” or “our”) accepts full responsibility for the accuracy of the information contained in this Notice and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other material facts the omission of which would make any statement misleading as at the date of issuance.

Dear Unitholder,

Re: Principal Life Style Fund (信安豐裕人生基金) (the “Fund”)

Thank you for your continuous support. We would like to inform you of the following changes in respect of the Fund, which will take immediate effect.

1. Changes in relation to the Revised Fund Manager Code of Conduct

As background, the Manager is licensed by the Hong Kong Securities and Futures Commission (the “SFC”) for type 4 (advising on securities) and type 9 (asset management) regulated activities and accordingly is subject to regulation by the SFC, including the SFC’s Fund Manager Code of Conduct (the “Fund Manager Code”). The SFC has revised the Fund Manager Code to include certain disclosure obligations on companies licensed by the SFC for type 9 regulated activity in relation to funds they manage.

The Explanatory Memorandum of the Fund has been revised to reflect the requirements of the revised Fund Manager Code which include enhanced disclosure of information relating to the Manager having no intention to enter into any securities lending agreement, repurchase agreement and reverse repurchase transactions in respect of any Sub-Fund, no leverage being incurred from the use of financial derivative instruments, the licensing status of the Manager, risk management process and conflicts of interest.

2. Changes in relation to the Revised SFC’s Code on Unit Trusts and Mutual Funds

The Fund is authorised by the SFC in Hong Kong and accordingly is subject to the SFC’s Code on Unit Trusts and Mutual Funds the (“UT Code”). The SFC has revised the UT Code with an aim to update the regulatory regime for SFC-authorized funds and address the risks posed by financial innovation and other developments.

The Explanatory Memorandum of the Fund has been revised to reflect the requirements of the revised UT Code and the Guide on Practices and Procedures for Application for Authorization of Unit Trusts and Mutual Funds (the “Guide”) and the changes made to the disclosure of information include but not limited to the following:

- (i) updating of the definition of “connected persons”;
- (ii) enhancement of disclosures on the investment objectives of certain sub-funds of the Fund, namely Principal Asian Equity Fund, Principal International Bond Fund, Principal International Equity Fund and Principal U.S. Equity Fund (the “Sub-Funds”) by disclosing that each Sub-Fund may enter into financial futures contracts, financial option contracts and currency forward contracts for hedging purpose in order to align with the disclosures in the existing KFS regarding the use of certain financial derivative instruments and to clarify the investments in certain financial derivative instruments as permissible under the MPF Regulation and UT Code;
- (iii) addition of risk associated with financial derivative instruments and liquidity risk;
- (iv) enhancement of investment and borrowing restrictions applicable to the Fund and its sub-funds;

- (v) enhancement of general obligations of the Trustee;
- (vi) the alignment of wordings in respect of the Manager's discretion to limit the redemption requests;
- (vii) enhancement of the Manager's obligations in relation to valuation and pricing;
- (viii) the alignment of wordings in respect of the Manager's power to suspend the determination of net asset value of any Sub-Fund;
- (ix) addition of disclosure relating to the Manager's obligations in the event of suspension of dealings;
- (x) enhancement of disclosures relating to cash rebates and soft commissions to reflect that the sub-delegates of the Manager will also be subject to the relevant restrictions;
- (xi) enhancement of disclosures relating to the preparation of accounts and financial reports;
- (xii) enhancement of disclosures relating to the publication of net asset value per unit;
- (xiii) enhancement of disclosure relating to the removal of the Manager;
- (xiv) addition of disclosure relating to the handling of unclaimed proceeds of Unitholders during the termination process;
- (xv) enhancement of disclosure relating to the modification of trust deed; and
- (xvi) enhancement of disclosure relating to the conflicts of interests.

The sub-section headed "Investment Strategy" under the "Objective and Investment Strategy" in the product key fact statements ("KFS") of the Sub-Funds have been updated to disclose that the relevant Sub-Fund may also enter into currency forward contracts for hedging purpose to clarify the investments in certain financial derivative instruments as permissible under the MPF Regulation and UT Code. In addition, the section headed "Use of derivatives / investment in derivatives" in the KFS of the Sub-Funds have also been updated to align with the disclosure requirement as provided in the KFS illustrative templates for general funds. Given that the Sub-Funds may enter into financial futures contracts, financial option contracts and currency forward contracts for hedging purposes, the net derivative exposure of each relevant Sub-Fund may be up to 50% of such Sub-Fund's net asset value.

3. Other miscellaneous updates

Previous addenda have been incorporated into the Explanatory Memorandum of the Fund. Apart from the changes set out above, other changes have also been made to the Explanatory Memorandum of the Fund including but not limited to:-

- (i) update to the address of the legal adviser to the Manager;
- (ii) update to the directors of Manager;
- (iii) enhancement of risk disclosure relating to investment in the China Interbank Bond Market;
- (iv) update to disclosure relating to Foreign Account Tax Compliance Act by removing the withholding requirements on gross proceeds from the sale of US securities;
- (v) removal of outdated information relating to the total assets under management of the Manager;
- (vi) update to the disclosure relating to the initial issue of units;
- (vii) updating the Manager's address for inspection of documents as "30/F, Millennium City 6, 392 Kwun Tong Road, Kwun Tong, Kowloon"; and
- (viii) other editorial amendments and miscellaneous changes.

A new sub-section headed "Automatic exchange of financial information" has also been included under the section headed "General information" of the Explanatory Memorandum, as summarised below.

Financial institutions in Hong Kong and many other jurisdictions are required to identify account holders who are reportable foreign tax residents for the purpose of Automatic Exchange of Financial Account Information ("AEOI"), and report the information of account holders and controlling persons of certain entity account holders, including but not limited to their names, addresses, dates of birth, places of birth/incorporation, jurisdiction(s) of tax residence, tax identification number(s) in the relevant jurisdiction(s) and account information (including but not limited to their

account balance, income, and payments to the account holders) (collectively, the “**Reportable Information**”) to the local tax authority where the financial institutions operate.

The Fund is a Hong Kong financial institution for AEOI purposes. As required under AEOI of Hong Kong, the Fund will provide the Reportable Information of any individual or entity, in the capacity as a Unitholder, to the Inland Revenue Department (the “**IRD**”) for transfer to the to the tax authority of the country of tax residence of the reportable foreign tax resident.

The Fund and/or any of its authorised person(s) may require any “account holder” under AEOI to provide a valid self-certification form and such other information (including the Reportable Information and any documentary evidence) which the Fund and/or any of its authorised person(s) may require from time to time for the implementation of AEOI (collectively, the “**Required Information**”). In addition, where the “account holder” is an entity, the Fund and/or its authorised person(s) may require the Required Information of its “controlling person(s)”.

Each Unitholder acknowledge that where required by AEOI and to the extent not prohibited by applicable law, the Fund will not accept any applicant or make any payment to any “account holder” (in the capacity of a Unitholder) before receiving the Required Information. “Account holders” and “controlling persons” must update the Fund and/or any of its authorised person(s) about any changes in the information they have previously provided to the Fund and/or any of its authorised person(s).

Unitholders and any other “account holders” and “controlling persons” should consult their own tax advisers regarding the possible implications of AEOI on their participation and holding interests in the Fund and the information that may be required to be provided and disclosed to the Fund and/or any of its authorised person(s), and where applicable, to the IRD and other tax authorities.

4. **Amendments to the Trust Deed**

The Trust Deed is amended by way of Amended and Restated Trust Deed to conform with the revised requirements of the UT Code and the Guide. The related amendments include but not limited to the following:

- (i) the updating of the definition of “connected persons”;
- (ii) the custody arrangements in respect of the Fund’s assets;
- (iii) the alignment of wordings in respect of the Manager’s discretion to limit the redemption requests;
- (iv) enhancement of the Manager’s obligations in relation to valuation and pricing;
- (v) enhancement of the Manager’s obligations in the event of suspension of dealings;
- (vi) removal of provisions relating to changes to dealing;
- (vii) enhancement of investment and borrowing restrictions applicable to the Fund and its sub-funds;
- (viii) enhancement of general obligations of the Trustee;
- (ix) enhancement of general obligations of the Manager;
- (x) enhancement of provisions relating to the appointment, removal and retirement of the Manager;
- (xi) addition of provision relating to the arrangement of class meetings when there is conflict of interest between different classes of Unitholders;
- (xii) enhancement of provisions relating to the variation of the Trust Deed; and
- (xiii) the alignment of wordings in respect of transactions with connected persons.

The Trust Deed has also been updated to include provisions relating to Automatic Exchange of Financial Information and certain miscellaneous changes.

5. **Fees and costs in connection with the proposed changes to the Revised Explanatory Memorandum, KFS and the Trust Deed**

The fees and costs in connection with the above changes (including amendments to the Explanatory Memorandum) will be borne by the relevant Sub-Funds.

* * *

All changes described above will not have any adverse impact on Unitholders.

Please note that all information provided herein is qualified in its entirety by the Explanatory Memorandum. The changes described above are in summary form only and are not meant to be an exhaustive list of the amendments made to the Explanatory Memorandum. Unitholders should note that there are other ancillary and editorial changes and updates to the Explanatory Memorandum and as such, should review the latest Explanatory Memorandum for further details on the changes made.

You may access the updated Explanatory Memorandum and Product Key Facts Statement on our website at www.principal.com.hk or request a copy of it by contacting our customer service hotline at 2117 8383. The Trust Deed (as amended from time to time) may be inspected free of charge during normal working hours at our office. You may also obtain a copy of the Trust Deed upon payment of a reasonable fee.

Terms used in this Notice have the same meaning as in the latest version of the Explanatory Memorandum of the Fund, unless otherwise specified in this Notice.

If you have any queries relating to the above, please contact our customer service hotline above.

Principal Asset Management Company (Asia) Limited

Important Information for Investors

Principal Asset Management Company (Asia) Limited (the “Manager”) has taken all reasonable care to ensure that the facts stated in this Explanatory Memorandum are true and accurate in all material respects at the date hereof and that to the best of our knowledge and belief there are no other material facts the omission of which would make any statement of fact or opinion herein misleading. The Manager accepts responsibility for the information contained in this Explanatory Memorandum as being accurate at the date of publication. However, neither the delivery of this Explanatory Memorandum nor the offer or issue of units in the Principal Life Style Fund (the “Fund”) shall under any circumstances constitute a representation that the information contained in this Explanatory Memorandum is correct as of any time subsequent to such date. This Explanatory Memorandum may from time to time be updated. Intending applicants for units should ask the Manager if any supplements to this Explanatory Memorandum or any later Explanatory Memorandum have been issued.

Distribution of this Explanatory Memorandum must be accompanied by a copy of the latest available audited annual report of the Fund and any subsequent interim report. Units are offered on the basis only of the information contained in this Explanatory Memorandum and (where applicable) the above mentioned audited annual report and interim report. Any information given or representations made by any dealer, salesman or other person and (in either case) not contained in this Explanatory Memorandum should be regarded as unauthorised and accordingly must not be relied upon.

The Fund has been authorised by the Securities and Futures Commission in Hong Kong. The Securities and Futures Commission’s authorization is not a recommendation or endorsement of the Fund nor does it guarantee the commercial merits of the Fund or its performance. It does not mean the Fund is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors. In granting such authorisation, the Securities and Futures Commission takes no responsibility for the financial soundness of the Fund or for the accuracy of any of the statements made or opinions expressed in this Explanatory Memorandum. In addition, the Fund has been approved by the Mandatory Provident Fund Schemes Authority as an approved pooled investment fund under the Mandatory Provident Fund Schemes Ordinance. Such authorisation and approval do not imply that investment in the Fund is recommended by the Securities and Futures Commission or the Mandatory Provident Fund Schemes Authority.

Certain Sub-Funds have been authorized by the Monetary Authority of Macao (AMCM) for distribution in Macau. No action has been taken to permit an offering of units or the distribution of this Explanatory Memorandum in any jurisdiction other than Hong Kong and Macau where action would be required for such purposes. Accordingly, this Explanatory Memorandum may not be used for the purpose of an offer or solicitation in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised.

In particular:

- (a) Units in the Fund have not been registered under the United States Securities Act of 1933 (as amended) and, except in transaction which does not violate such Act, may not be directly or indirectly offered or sold in the United States of America, or any of its territories or possessions or areas subject to its jurisdiction, or for the benefit of a US Person (as defined in Regulation S under such Act).
- (b) The Fund has not been and will not be registered under the United States Investment Company Act of 1940 as amended.

Potential applicants for units in the Fund should inform themselves as to (a) the possible tax consequences, (b) the legal requirements and (c) any foreign exchange restrictions or exchange control requirements which they might encounter under the laws of the countries of their incorporation, citizenship, residence or domicile and which might be relevant to the subscription, holding or disposal of units in the Fund.

IMPORTANT: Investment in the Sub-Funds may involve a high degree of risk and may not be suitable for all investors. Subject to market and economic conditions and the risks associated with the Sub-Funds, investors may suffer significant loss in the values of their investment in the Sub-Funds. You should consider your own investment objectives before making an investment and read carefully the investment objectives and policies and risk factors of the Sub-Funds in this Explanatory Memorandum. If you are in any doubt about the contents of this Explanatory Memorandum, you should seek independent professional financial advice.

Date of publication: January 2020

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Parties

Manager

Principal Asset Management Company (Asia) Limited
30/F Millennium City 6
392 Kwun Tong Road, Kwun Tong, Kowloon.

Trustee, Custodian and Registrar

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

Delegate of the Manager

Principal Global Investors, LLC
801 Grand Avenue
Des Moines
IA 50392, USA

Sub-Delegates of the Manager

(for Principal Hong Kong Bond Fund, Principal International Bond Fund and Principal European Equity Fund)

Principal Global Investors (Europe) Limited
10 Gresham Street
London EC2V 7JD
United Kingdom

(for Principal Asian Equity Fund, Principal China Equity Fund, Principal Hong Kong Bond Fund, Principal Hong Kong Dollar Savings Fund and Principal Hong Kong Equity Fund)

Principal Global Investors (Hong Kong) Limited
Unit 1001-1002 Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Legal Advisers to the Manager

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

Auditors

Ernst & Young
22/F., CITIC Tower,
1 Tim Mei Avenue,
Central, Hong Kong

Directors of the Manager

Cheong Wee Yee
Binay Chandgothia

Website

www.principal.com.hk

Definitions

“Business Day”	a day (other than Saturday) on which banks in Hong Kong are open for normal banking business (unless the Manager and the Trustee otherwise agree) or such other day or days as the Manager and the Trustee may agree from time to time, either generally or in relation to a particular Sub-Fund
“connected person”	in relation to a company means <ul style="list-style-type: none">(a) any person or company beneficially owning, directly or indirectly, 20% or more of the ordinary share capital of that company or able to exercise directly or indirectly, 20% or more of the total voting rights of that company; or(b) any person or company controlled by a person who or which meets one or both of the descriptions given in (a); or(c) any member of the group of which that company forms part; or(d) any director or officers of that company or any of its connected person as defined in (a), (b) or (c) above
“Dealing Day”	each Business Day or such Business Day or Business Days as the Manager may from time to time, with the approval of the Trustee, determine either generally or for a particular class or classes of Units, provided that if any commodities and securities markets on which all or part of the investments of any Sub-Fund are quoted, listed or dealt in are on any day not open for trading, the Manager may determine that such day shall not be a Dealing Day in relation to such Sub-Fund
“Fund”	Principal Life Style Fund
“HK\$” and “HK dollars” and “Hong Kong dollars”	the currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Manager”	Principal Asset Management Company (Asia) Limited
“MPF Authority”	Mandatory Provident Fund Schemes Authority
“MPF Regulation”	Mandatory Provident Fund Schemes (General) Regulation, as amended from time to time
“MPFS Ordinance”	Mandatory Provident Fund Schemes Ordinance (Cap 485 of the Laws of Hong Kong), as amended from time to time
“SFC”	Securities and Futures Commission of Hong Kong
“Sub-Fund”	a separate pool of assets of the Fund, which is invested and administered separately from other assets of the Fund
“Trust Deed”	the trust deed dated 7 May 2003 establishing the Fund, as amended from time to time
“Trustee”	Principal Trust Company (Asia) Limited
“Unit”	means such number of undivided shares or such fraction of an undivided share of the Sub-Fund to which a Unit relates as is represented by a Unit of the relevant class, and except where used in relation to a particular class of Unit a reference to Units means and includes Units of all classes. The number of undivided shares represented by each class of Units in a Sub-Fund is adjusted to take account of the different levels of fees borne by each class
“Unitholder”	a registered holder of Units
“US\$” and “US dollars”	the currency of the United States of America
“UTMF Code”	the SFC’s Code on Unit Trusts and Mutual Funds, as amended from time to time

The Principal Life Style Fund is a unit trust established by a trust deed dated 7 May 2003 between Principal Asset Management (Asia) Limited as Manager and Principal Trust Company (Asia) Limited as Trustee. The Fund and the Sub-Funds thereunder are established under and governed by the laws of Hong Kong.

The Fund is an umbrella fund under which the following Sub-Funds have been established:

1. Principal Asian Equity Fund
2. Principal International Bond Fund
3. Principal International Equity Fund
4. Principal Hong Kong Dollar Savings Fund
5. Principal U.S. Equity Fund
6. Principal Hong Kong Equity Fund
7. Principal China Equity Fund
8. Principal European Equity Fund
9. Principal Pension Bond Fund
10. Principal Hong Kong Bond Fund

The Fund and each of the Sub-Funds have been authorised by the SFC under the UTMF Code and approved by the MPF Authority as an approved pooled investment fund under the MPFS Ordinance.

Although the Fund and the Sub-Funds have been approved by the MPF Authority and authorized by the SFC, such approval or authorisation do not constitute official recommendation of the Fund or the Sub-Funds by the MPF Authority or the SFC. SFC authorization is not a recommendation or endorsement of the Fund or the Sub-Funds nor does it guarantee the commercial merits of the Fund or the Sub-Funds or its performance. It does not mean the Fund or the Sub-Funds is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.

Six classes of Units, namely the Investment Class Units, I6 Class Units, Pension Class Units, Retail Class Units, R2 Class Units and R6 Class Units, are available in relation to each Sub-Fund. The Manager may in future request the Trustee to create further Sub-Funds or determine to issue additional classes of Units in relation to each Sub-Fund. Units in each class of the Sub-Funds are denominated in HK dollars.

Investment Objectives and Policies

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

(i) Principal Asian Equity Fund

The investment objective of the Principal Asian Equity Fund is to seek capital growth over the long term by investing in Asian equity markets.

To achieve its objective, the Sub-Fund will invest primarily in equity securities of companies in the Asian Region. In addition, the Sub-Fund may hold cash and short-term investments such as bills and deposits.

Investment markets may include, but are not limited to, Hong Kong, Singapore, South Korea, Malaysia, Taiwan, Thailand, the Philippines, Indonesia, India and China.

The Principal Asian Equity Fund may enter into financial futures contracts, financial option contracts and currency forward contracts for hedging purposes.

The target ranges of asset allocation and geographic allocation of the Sub-Fund are as follows:

Asset Allocation*	
Equity Securities	70 - 100%
Cash & Short-term Investments (e.g. bills and deposits)	0 - 30%
Geographic Allocation*	
Asia (ex-Japan)	80 - 100%
Others	0 - 20%

The risk profile of the Principal Asian Equity Fund is generally regarded as high.[^] In the long term, the return of the Principal Asian Equity Fund is expected to exceed the inflation rates in Hong Kong.

(ii) Principal International Bond Fund

The investment objective of the Principal International Bond Fund is to protect and maximize real asset value in terms of international purchasing power.

To accomplish its objective, the Sub-Fund will invest mainly in the global bond markets. The Sub-Fund will primarily invest in a portfolio of debt securities, both sovereign or non-sovereign, of varying maturities and denominated in the world's major currencies.

The Principal International Bond Fund may enter into financial futures contracts, financial option contracts and currency forward contracts for hedging purposes.

The target ranges of asset allocation and geographic allocation of the Sub-Fund are as follows:

Asset Allocation*	
Debt Securities	70 - 100%
Cash & Short-term Investments (e.g. bills and deposits)	0 - 30%
Geographic Allocation*	
Asia (ex-Japan)	0 - 50%
Europe	0 - 50%
Japan	0 - 50%
North America	15 - 85%
Other countries (each)	0 - 20%

The risk profile of the Principal International Bond Fund is generally regarded as moderate.[^] In the long term, the return of the Principal International Bond Fund is expected to be comparable to the inflation rates in Hong Kong.

(iii) Principal International Equity Fund

The investment objective of the Principal International Equity Fund is to seek capital growth over the long term by investing in international equity markets.

The Sub-Fund seeks to achieve its objective by investing primarily in equity securities selected from investment markets around the world. The Sub-Fund may also hold cash and short-term investments.

The Principal International Equity Fund may enter into financial futures contracts, financial option contracts and currency forward contracts for hedging purposes.

The target ranges of asset allocation and geographic allocation of the Sub-Fund are as follows:

Asset Allocation*	
Equity Securities	70 - 100%
Cash & Short-term Investments (e.g. bills and deposits)	0 - 30%
Geographic Allocation*	
North America	0 - 65%
Europe	0 - 60%
Asia	0 - 50%
South America	0 - 50%
Middle East	0 - 20%
Africa	0 - 20%
Others	0 - 20%

The risk profile of the Principal International Equity Fund is generally regarded as high.[^] In the long term, the return of the Principal International Equity Fund is expected to exceed the inflation rates in Hong Kong.

(iv) Principal Hong Kong Dollar Savings Fund

The investment objective of the Principal Hong Kong Dollar Savings Fund is to earn a competitive short-to-medium term rate of return.

To achieve its investment objective, the Sub-Fund will invest primarily in a portfolio of high quality HK dollars short-to medium duration debt securities. The Sub-Fund may also hold assets denominated in other currencies.

The Principal Hong Kong Dollar Savings Fund will not enter into any financial futures contracts or financial option contracts.

The target ranges of asset allocation and geographic allocation of the Sub-Fund are as follows:

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

The risk profile of the Principal Hong Kong Dollar Savings Fund is generally regarded as low.[^] In the long term, the return of the Principal Hong Kong Dollar Savings Fund is expected to exceed the Hong Kong dollar bank saving rates in Hong Kong.

(v) Principal U.S. Equity Fund

The investment objective of the Principal U.S. Equity Fund is to achieve capital growth over the long term by investing in U.S. equity markets.

The Sub-Fund seeks to achieve its objective by investing primarily in U.S. equities. The Sub-Fund may also hold cash and short-term securities.

The Principal U.S. Equity Fund may enter into financial futures contracts, financial option contracts and currency forward contracts for hedging purposes.

The target ranges of asset allocation and geographic allocation of the Sub-Fund are as follows:

Asset Allocation*	
Equity Securities	70 - 100%
Cash & Short-term Investments (e.g. bills and deposits)	0 - 30%
Geographic Allocation*	
United States	70 - 100%
Hong Kong	0 - 30%
Others	0 - 20%

The risk profile of the Principal U.S. Equity Fund is generally regarded as high.[^] In the long term, the return of the Principal U.S. Equity Fund is expected to exceed the inflation rates in Hong Kong.

(vi) Principal Hong Kong Equity Fund

The objective of the Principal Hong Kong Equity Fund is to achieve capital growth over the long-term by investing mainly in Hong Kong equity markets. The Principal Hong Kong Equity Fund will invest at least 70% of its assets in listed equities issued by companies established in Hong Kong or by companies whose shares are listed (including but not limited to H shares and shares of red-chip companies) on the Hong Kong Stock Exchange. The Principal Hong Kong Equity Fund may also invest in listed equities issued by companies which have business in Hong Kong. The Sub-Fund may hold up to 30% of its assets in cash and time deposits on a temporary basis or for such longer period as the circumstances require to maintain liquidity. The Principal Hong Kong Equity Fund is denominated in Hong Kong dollars.

The Principal Hong Kong Equity Fund will not enter into any financial futures contracts or financial option contracts.

The target ranges of asset allocation and geographic allocation of the Sub-Fund are as follows:

Asset Allocation*	
Equity Securities	70 - 100%
Cash & Short-term Investments (e.g. bills and deposits)	0 - 30%
Geographic Allocation*	
Hong Kong/China	70 - 100%
Others	0 - 30%

The Sub-Fund may invest in eligible China A-Shares and China B-Shares listed on the Shanghai or Shenzhen stock exchanges. As the Shanghai and Shenzhen stock exchanges are not 'approved stock exchanges' in the MPFA Guideline III.4, exposure to China A-Shares and China B-Shares will therefore, in aggregate, be subject to a cap of not more than 10% of the Sub-Fund's net asset value. Investors are advised to refer to the sections titled "Risks associated with investments/exposure to RMB currency and/or Mainland China", "Risks associated with investment in China A-Shares through stock connect programmes" and "Custodial risk" for risks involved in investing in China A-Shares and China B-Shares.

The risk profile of the Principal Hong Kong Equity Fund is generally regarded as high.[^] In the long term, the return of the Principal Hong Kong Equity Fund is expected to exceed the inflation rates in Hong Kong.

The investment management function of the Manager in respect of the Principal Hong Kong Equity Fund is also delegated to Principal Global Investors, LLC.

(vii) Principal China Equity Fund

The objective of the Principal China Equity Fund is to achieve capital growth over the long term by investing mainly in China-related equities. The Principal China Equity Fund will invest at least 70% of its assets in equities issued by companies with exposure to different sectors of the economy in the People's Republic of China (Mainland China) or in collective investment schemes as permitted under the MPF Regulation which primarily invest in such equity securities. Equity securities include but are not limited to equity shares, preference shares and depositary receipts. The Sub-Fund may invest in eligible China A-Shares and China B-Shares listed on the Shanghai or Shenzhen stock exchanges. As the Shanghai and Shenzhen stock exchanges are not 'approved stock exchanges' in the MPFA Guideline III.4, exposure to China A-Shares and China B-Shares will therefore, in aggregate, be subject to a cap of not more than 10% of the Sub-Fund's net asset value. Investors are advised to refer to the sections titled "Risks associated with investments/exposure to RMB currency and/or Mainland China", "Risks associated with investment in China A-Shares through stock connect programmes" and "Custodial risk" for risks involved in investing in China A-Shares and China B-Shares.

The Principal China Equity Fund may hold cash and short-term investments for cash management purpose. It is denominated in Hong Kong dollars. It will maintain an effective exposure of at least 30% in HK dollars.

The Principal China Equity Fund will not enter into any financial futures contracts or financial option contracts.

The target ranges of asset allocation and geographic allocation of the Sub-Fund are as follows:

Asset Allocation*	
Equity Securities	70 - 100%
Cash & short-term investments (e.g. bills and deposits)	0 - 30%
Geographic Allocation*	
People's Republic of China (Mainland China)	70 - 100%
Other countries	0 - 30%

The risk profile of the Principal China Equity Fund is generally regarded as high. ^ In the long term, the return of the Principal China Equity Fund is expected to exceed the inflation rates in Hong Kong.

(viii) Principal European Equity Fund

The investment objective of the Principal European Equity Fund is to achieve capital growth over the long-term by investing mainly in European equity markets. The Sub-Fund will invest primarily in listed equities issued by companies established in Europe or by companies whose shares are listed in Europe or by companies that are listed elsewhere but have substantial business in Europe.

The Principal European Equity Fund may hold cash and short-term investments for cash management purpose. Its risk profile is generally regarded as high. ^ It is denominated in Hong Kong dollars.

The Principal European Equity Fund will not enter into any financial futures contracts or any financial option contracts.

The target ranges of asset allocation and geographic allocation of the Sub-Fund are as follows:

Asset Allocation*	
Equity Securities	70 - 100%
Cash & Short-term Investments (e.g. bills and deposits)	0 - 30%
Geographic Allocation*	
Europe	70 - 100%
Others countries	0 - 30%

In the long term, the return of Principal European Equity Fund is expected to exceed the inflation rates in Hong Kong.

The investment management function of the Manager in respect of the Principal European Equity Fund is delegated to Principal Global Investors, LLC. Principal Global Investors, LLC has sub-delegated its discretionary investment management function for Principal European Equity Fund to Principal Global Investors (Europe) Limited.

(ix) Principal Pension Bond Fund

The investment objective of the Principal Pension Bond Fund is to provide a return consisting of income and capital growth over medium to long term. The Sub-Fund will seek to achieve its investment objective by primarily investing in debt securities, including sovereign and/or non-sovereign, floating and/or fixed, of varying maturities issued by the government or by multi-lateral agencies or by companies throughout the world such that at least 40% is invested at all times in United States and Greater China (People's Republic of China, Hong Kong, Macau and Taiwan). The types of debt securities that the Principal Pension Bond Fund primarily intends to invest into are government bonds, corporate bonds/debentures, bills, commercial papers and certificates of deposit.

The Principal Pension Bond Fund will not enter into any financial futures contracts or financial option contracts.

The target ranges of asset allocation and geographic allocation of the Sub-Fund are as follows:

Asset Allocation*	
Debt Securities	70 - 100%
Cash & Short-term Investments (e.g. bills and deposits)	0 - 30%
Geographic Allocation*	
United States and Greater China	40 - 100%
Other Asia	0 - 50%
Europe	0 - 50%
Other countries	0 - 30%

The risk profile of the Principal Pension Bond Fund is generally regarded as moderate.[^] The Sub-Fund is denominated in Hong Kong dollars. In the long term, the return of the Sub-Fund is expected to be comparable to the inflation rates in Hong Kong.

The investment management function of the Manager in respect of the Principal Pension Bond Fund is delegated to Principal Global Investors, LLC.

(x) Principal Hong Kong Bond Fund

The investment objective of the Principal Hong Kong Bond Fund is to provide a return consisting of income and capital growth over medium to long term. The Sub-Fund will seek to achieve its investment objective by primarily investing at least 70% of its assets in Hong Kong debt securities (rated or unrated[#]), including (but not limited to) sovereign and/or non-sovereign, floating and/or fixed, of varying maturities issued by the government or by multi-lateral agencies or by companies, and denominated in Hong Kong dollars. The types of debt securities that the Principal Hong Kong Bond Fund primarily intends to invest into are government bonds, corporate bonds/debentures, floating rate notes, bills, commercial papers and certificates of deposit. In addition, the Sub-Fund will invest not more than 30% of its assets in other short-term investments such as bills and deposits or may hold cash.

The Principal Hong Kong Bond Fund will not enter into any financial derivative instruments, including financial futures contracts or financial option contracts.

The target ranges of asset allocation and geographic allocation of the Sub-Fund are as follows:

Asset Allocation*	
Debt Securities	70 - 100%
Cash & Short-term Investments (e.g. bills and deposits)	0 - 30%
Geographic Allocation*	
Hong Kong/China	70 - 100%
Others	0 - 30%

The risk profile of the Principal Hong Kong Bond Fund is generally regarded as moderate[^]. It is denominated in Hong Kong dollars. In the long term, the return of the Principal Hong Kong Bond Fund is expected to be comparable to the inflation rates in Hong Kong.

[#] Investment in unrated debt securities is only limited to those issued by the "exempt authority" within the definition of Section 7 of Schedule 1 to the MPF Regulation.

[^] The classifications of risk/return profile are determined by the Manager based on past volatility (i.e. annualized standard deviation of returns) and the relative risk levels among the Sub-Funds of the Fund. The classifications of risk/return profile will be reviewed by the Manager on an annual basis and are provided for reference only.

Before making any investment decisions, investors should consider their own specific circumstances, including, without limitation, their own risk tolerance level, financial circumstances and investment objectives etc. If in doubt, investors should consult their stockbrokers, bank managers, solicitors, accountants, representative banks or other financial advisers.

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

Each of the 10 Sub-Funds is either an equity fund, a bond fund or a balanced fund.

Subject to the approval of the MPF Authority and the SFC, the Manager may change the investment policy of any of the 10 Sub-Funds or merge or sub-divide any Sub-Fund by giving a three months' prior written notice (or such shorter period of notice as the SFC may approve) to the Unitholders of the Fund. In the case of merger or sub-division of any Sub-Fund, the Unitholders will also be notified of the relevant details.

Risk Factors

Investments involve risks. Each Sub-Fund is subject to market fluctuations and to the risks inherent in all investments. The price of Units of any Sub-Fund and the income from them may go down as well as up.

The performance of the Sub-Funds will be affected by a number of key risk factors, including the following:

Investment risk and Currency risk

- (a) Investment risk — The Sub-Funds' investment portfolio may fall in value due to any of the key risk factors below and therefore investment in the Sub-Funds may suffer losses. There is no guarantee of the repayment of principal.
- (b) Currency risk — Underlying investments of the Sub-Funds may be denominated in currencies other than the base currency of the Sub-Funds. Also, a class of units may be designated in a currency other than the base currency of the Sub-Funds. The net asset value of the Sub-Funds may be affected unfavorably by fluctuations in the exchange rates between these currencies and the base currency and by changes in exchange rate controls.

Risk associated with equities

- (a) Equity market risk — The Sub-Funds' investment in equity securities is subject to general market risks, whose value may fluctuate due to various factors, such as changes in investment sentiment, political and economic conditions and issuer-specific factors, which may affect the net asset value of the Sub-Funds.
- (b) Risks associated with small-capitalisation/mid-capitalisation companies — The stock of small capitalisation/mid-capitalisation companies may have lower liquidity and their prices are more volatile to adverse economic developments than those of larger capitalisation companies in general. The net asset value of the Sub-Funds investing in such companies may therefore be adversely affected and investors may suffer loss.
- (c) Risks associated with high volatility of the equity market in certain countries and regions — High market volatility and potential settlement difficulties in these markets may result in significant fluctuations in the prices of the securities traded on such markets and thereby may adversely affect the net asset value of the Sub-Funds trading in these markets.
- (d) Risks associated with regulatory or exchanges requirements of the equity market in certain countries and regions — Securities exchanges in certain countries and regions may have the right to suspend or limit trading in any security traded on the relevant exchange. The government or the regulators may also implement policies that may affect the financial markets. All these may have a negative impact on the Sub-Funds investing in such regions.

Risk associated with debt securities

- (a) Credit/Counterparty risks — The Sub-Funds may be exposed to credit and counterparty risk of issuers of the debt securities that the Sub-Funds may invest in. If the issuer of debt securities in which the Sub-Funds invested in defaults or suffers insolvency, such securities may become worthless and the performance of the Sub-Funds will be adversely affected. Further, investments in debt securities which involve a counterparty are subject to the credit risk or default risk of the counterparty. This may adversely affect the net asset value of the Sub-Funds and investors may as a result suffer loss.
- (b) Interest rate risk — Interest rate movements have an impact on the valuation of debt securities and hence, the net asset value of a Sub-Fund. In general, the prices of debt securities rise when interest rates fall, whilst their prices fall when interest rates rise.
- (c) Volatility and liquidity risks — Debt securities in less developed markets may be subject to higher volatility and lower liquidity. The prices of debt securities traded in such markets may be subject to fluctuations. The bid and offer spreads of the price of such securities may be large and the Sub-Funds investing in such markets may incur significant trading costs.

- (d) Downgrading risks — The credit rating of a debt securities or its issuer may subsequently be downgraded. In the event of such downgrading, the value of the Sub-Funds may be adversely affected. The Manager may not be able to dispose of the debt securities that are being downgraded.
- (e) Risk associated with debt securities rated below investment grade or rated BB+ or below or unrated — Some of the Sub-Funds may invest in debt securities rated below investment grade (in the case where the credit rating is designated/assigned by an internationally recognised credit rating agency) or rated BB+ or below by a PRC credit rating agency (in the case the credit rating is designated/assigned by a PRC credit rating agency) or unrated. Such securities are generally subject to lower liquidity, higher volatility and greater risk of loss of principal and interest than high-rated debt securities, which may adversely impact the returns of the securities and in turn the net asset value of the Sub-Funds.
- (f) Sovereign debt risks — If the Sub-Funds invest in debt securities issued or guaranteed by governments they may be exposed to political, social and economic risks. In adverse situations, the sovereign issuers may not be able or willing to repay the principal and/or interest when due or may request the Sub-Funds to participate in the restructuring of such debts. The Sub-Funds may suffer significant losses when there is a default of sovereign debt issuers.
- (g) Valuation risks — Valuation of a Sub-Fund's investments may involve uncertainties and judgmental determinations. If such valuation turns out to be incorrect, this may affect the net asset value of the Sub-Fund and investors may as a result suffer loss.
- (h) Credit rating risk — Credit ratings assigned by rating agencies are subject to limitations and do not guarantee the creditworthiness of the security and/or issuer at all times.

Risks associated with specific investment strategy

- (a) Concentration risk — Some of the Sub-Funds' investments may be concentrated in specific geographic locations. The value of such Sub-Funds whose investments are consequently concentrated may be more volatile than Sub-Funds having a more diverse portfolio of investments. Additionally, the value of such Sub-Funds may be more susceptible to adverse economic, political, policy, foreign exchange, liquidity, tax, legal or regulatory event affecting the single country or regional markets.
- (b) Eurozone risks — In light of ongoing concerns on the sovereign debt risk of certain countries within the Eurozone, Sub-Funds investing in the region may be subject to higher volatility, liquidity, currency and default risks. Any adverse events, such as a credit downgrade of a sovereign or exit of EU members from the Eurozone, may have a negative impact on the net asset value of the Sub-Funds and investors may as a result suffer loss.
- (c) Emerging market risks — Some of the Sub-Funds may invest in emerging markets which may involve increased risks and special considerations not typically associated with investment in more developed markets, such as liquidity risks, currency risks, political and economic uncertainties, legal and taxation risks, settlement risks, custody risk and the likelihood of a high degree of volatility.

Risks associated with certain types of investments

- (a) Risks of investing in convertible bonds — Convertible bonds are a hybrid between debt and equity, permitting holders to convert into shares in the company issuing the bond at a specified future date. As such, convertible bonds will be exposed to equity movement and greater volatility than straight bond investments. Sub-Funds that invest in convertible bonds are subject to the same interest rate risk, credit risk and liquidity risk associated with straight bond investments.
- (b) Risks of investing in collective investment schemes — Sub-Funds that invest in collective investment schemes are subject to the risks associated with the underlying funds. Such Sub-Funds do not have control of the investments of the underlying funds and there is no assurance that the investment objective and strategy of the underlying funds will be successfully achieved, which may adversely affect the net asset value of the Sub-Funds and investors may as a result suffer loss. Further, the underlying collective investment schemes in which the Sub-Funds invest may not be regulated by the SFC. There may be additional costs involved when investing in these underlying collective investment schemes. There is also no guarantee that the underlying collective investment schemes will always have sufficient liquidity to meet redemption requests as and when made.

Risk associated with distributions out of/effectively out of the Sub-Fund's capital

- (a) Payment of distributions out of capital and/or effectively out of capital amounts to a return or withdrawal of part of an investor's original investment or from any capital gains attributable to that original investments. Any such distributions may result in an immediate reduction of the net asset value per unit of the Sub-Fund and investors may as a result suffer loss.

Risks associated with investments/exposure to RMB currency and/or Mainland China

- (a) RMB currency and conversion risks — RMB is currently not freely convertible and is subject to exchange controls and restrictions. Non-RMB based investors are exposed to foreign exchange risk and there is no guarantee that the value of RMB against the investors' base currencies (for example HKD) will not depreciate. Any depreciation of RMB could adversely affect the value of investor's investment in the Sub-Fund.

Although offshore RMB (CNH) and onshore RMB (CNY) are the same currency, they trade at different rates. Any divergence between CNH and CNY may adversely impact investors.

Under exceptional circumstances, payment of redemptions and/or distribution payment in RMB may be delayed due to the exchange controls and restrictions applicable to RMB.

- (b) Country risk — The value of Sub-Funds whose investment are concentrated in Mainland China may be more volatile than Sub-Funds having a more diverse portfolio of investments. Additionally, the value of such Sub-Funds may be more susceptible to adverse economic, political, policy, foreign exchange, liquidity, tax, legal or regulatory event affecting Mainland China.
- (c) PRC tax risk with respect to capital gains — A Sub-Fund may be subject to the potential tax liability for capital gains arising from disposal of PRC securities (including A-Shares and debt instruments) issued by PRC tax resident enterprises. Having consulted a professional and independent tax adviser, the Manager currently does not make any capital gains tax provision on the gross unrealised and realised capital gains derived from trading of PRC securities by the Sub-Fund. However, the Manager reserves the right to make a provision for the potential capital gains tax in respect of investments in the PRC in the future.

There is possibility of the PRC tax rules, regulations and practice being changed and taxes being applied retrospectively. There is no assurance that current tax concessions and exemptions will not be abolished in the future. As such, there is a risk that the Sub-Fund may have tax liabilities which were not provided for, which may potentially cause substantial loss to the Sub-Fund. The Manager will closely monitor any further guidance by the relevant PRC tax authorities and adjust the tax provision policy of the Sub-Fund accordingly.

The actual applicable tax rate imposed or the actual amount of tax liability assessed by PRC tax authorities may differ from the capital gains tax provision made by the Manager and may change from time to time.

Investors should note that if the actual applicable tax rate or liability levied by the PRC tax authorities is more than the capital gains tax provision (if any) the net asset value of such Sub-Fund may decrease more than anticipated as the Sub-Fund will, directly or indirectly, have to bear the additional tax liabilities. In this case, the additional tax liabilities will only impact units in issue at the relevant time, and the then existing investors and subsequent investors will be disadvantaged as such investors will bear, through the Sub-Fund, a disproportionately higher amount of tax liabilities as compared to that borne at the time of investment in such Sub-Fund.

On the other hand, if the actual applicable tax rate or liability levied by the PRC tax authorities is less than the capital gains tax provision (if any) so that there is an excess in the tax provision amount, investors who have redeemed the units before the PRC tax authorities' ruling or guidance in this respect will be disadvantaged as they would have borne the loss from the overprovision and will not be entitled to or have any right to claim any part of such overprovision. In this case, the then existing and new investors may benefit if the difference between the capital gains tax provision and the actual applicable tax rate or liability can be returned to the account of the Sub-Fund as assets thereof. Investors will be advantaged or disadvantaged depending on the final tax liabilities, the level of capital gains tax provision and timing of their subscription or redemption.

Risk of investing in the China Interbank Bond Market (the "CIBM") and/or Bond Connect

Investing in China debt securities through the CIBM initiative / Bond Connect (the "Program") is subject to various risks such as regulatory changes, market volatility, insufficient liquidity, agency default and other risks applied to investment in debt securities. Investors and their investment could be negatively affected and suffer a loss.

The regulations or policies relating to the Program may change from time to time. There is no guarantee that the Program will not be restricted or ceased which adversely affect the relevant Sub-Fund's ability to achieve its investment objective.

Low trading volume in the CIBM may cause market volatility and insufficient liquidity. Prices of debt securities traded on this market may fluctuate significantly which may widen the bid and offer spreads. This may incur material trading and realization costs for the relevant Sub-Fund.

Foreign investors may invest in the Program through opening an account with onshore settlement agent, offshore custody agent, registration agent or other third parties as the case may be). Investors are therefore subject to the risk of default or errors on these agents.

Risks associated with investment in China A-Shares through stock connect programmes

- (a) Legal and regulatory risk — The Sub-Funds may invest in China A-Shares through stock connect ("Stock Connect") programmes which aim to achieve mutual stock market access between Mainland China and Hong Kong such as Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect. Stock Connect programmes are novel in nature and the relevant rules and regulations will be subject to change which may have potential retrospective effect.
- (b) Trading risks — Trading in China A-Shares through Stock Connect programmes is subject to quota limitations, operational risks, risks arising from differences in trading days and restrictions on selling imposed by frondend monitoring and recalling of eligible stocks. Further, investments through such programmes are not covered by Hong Kong's Investor Compensation Fund. Where a suspension in the trading through a programme is effected, the Sub-Fund's ability to invest in China A-shares or

access the PRC market through such programme will be adversely affected. In such events, the Sub-Fund's ability to achieve its investment objective could be negatively affected, which may adversely affect the net asset value of the Sub-Funds and investors may as a result suffer loss.

Risks associated with financial derivative instruments

Certain Sub-Funds may utilize financial derivative instruments for the purposes of hedging. Financial derivative instruments include instruments and contracts the value of which is linked to one or more underlying securities, financial benchmarks or indices. Derivatives may allow an investor to hedge or speculate upon the price movements of a particular security, financial benchmark or index. Therefore, many of the risks applicable to trading the assets of the Sub-Fund may also be applicable to derivatives trading. However, there are a number of other risks associated with derivatives trading. For example, because many derivatives provide significantly more market exposure than the money paid or deposited when the transaction is entered into, a relatively small adverse market movement can result not only in the loss of the entire investment, but may also expose the Sub-Fund to the possibility of a loss exceeding the original amount invested.

Other risks inherent in the use of derivatives include, but are not limited to (a) the dependence on the Manager's ability to correctly predict the direction of interest rates, currencies exchange rates and securities prices; (b) the imperfect correlation between the returns of the derivative instruments used for hedging and the returns of the securities they hedge; (c) the fact that skills needed to use these strategies are different from those needed to select portfolio securities; (d) the possible absence of a liquid secondary market for any particular derivative instrument at any time; (e) the default of the counterparty on the terms of the derivative contract; (f) the risk of mispricing or improper valuation of derivatives; and (g) the risk of higher volatility of the returns as derivatives usually have a leverage component.

Other risks

- (a) Liquidity risk — A Sub-Fund may invest in instruments where the volume of transactions may fluctuate significantly depending on market sentiment. There is a risk that investments made by a Sub-Fund may become less liquid in response to market developments or adverse investor perceptions. In extreme market situations, there may be no willing buyer and the investments cannot be readily sold at the desired time or price, and the relevant Sub-Fund may have to accept a lower price to sell the investments or may not be able to sell the investments at all. An inability to sell a portfolio position can adversely affect the net asset value of a Sub-Fund or prevent a Sub-Fund from being able to take advantage of other investment opportunities.

Liquidity risk also includes the risk that a Sub-Fund will not be able to pay redemption proceeds within the allowable time period because of unusual market conditions, an unusually high volume of redemption requests, or other uncontrollable factors. To meet redemption requests, a Sub-Fund may be forced to sell investments, at an unfavourable time and/or conditions.

- (b) Custodial risk — Custodians or sub-custodians may be appointed in local markets for the purpose of safekeeping assets in those markets. Where a Sub-Fund invests in markets where custodial and/or settlement systems are not fully developed, the assets of the Sub-Fund may be exposed to custodial risk. In case of liquidation, bankruptcy or insolvency of a custodian or sub-custodian, the Sub-Fund may take a longer time to recover its assets or, in extreme cases, be unable to recover its assets. The costs borne by a Sub-Fund in investing and holding investments in such markets will be generally higher than in an organized securities market, which may adversely affect the net asset value of such Sub-Fund and investors may as a result suffer loss.
- (c) Hedging risk — The Manager is permitted, but not obliged, to use hedging instruments or hedging techniques to attempt to offset risks. There is no guarantee that hedging instruments will be available or hedging techniques will achieve their desired result. This may have adverse impact on the relevant Sub-Fund and its investors.
- (d) Risks associated with Foreign Account Tax Compliance Act ("FATCA") — The Fund intends to fully comply with the legislation and the obligations imposed on it by FATCA and meet its obligation under the IGA (as defined below) with the US government. However, no assurance can be given that the Fund will be able to fully achieve this and avoid being subject to US withholding taxes. In the event that Hong Kong as a jurisdiction is deemed not to meet its obligations, or if the Fund as a Hong Kong financial institution is deemed by the Hong Kong and/or US government not to be meeting its obligations in the future, the Fund may become subject to additional US withholding taxes, which could materially impact US sourced income (including predominantly interests, dividends and certain derivative payments). Investors should consult their legal, tax and financial advisers to determine their status under the FATCA regime before making any decision to invest in the Fund and the Sub-Funds.
- (e) Termination risk — Under the terms of the Trust Deed, the Manager may early terminate the Fund or a Sub-Fund in various circumstances including, without limitation, if (a) at any time one (1) year after its establishment, the net asset value of the Fund is less than HK\$500,000,000 (or in the case of a Sub-Fund, the aggregate net asset value of the Units of the relevant classes outstanding in respect of that Sub-Fund is less than HK\$100,000,000); or (b) the Fund or a Sub-Fund is no longer authorised under the Securities and Futures Ordinance or the MPFS Ordinance. On termination of the Fund or a Sub-Fund, the assets comprised therein will be sold, investors will receive distribution of the net cash proceeds which may be less than the amount they originally invested. Please see the sections titled "Termination of the Fund" and "Termination of a Sub-Fund" for further details.

Investment and Borrowing Restrictions

Investment Restrictions

The assets in the Sub-Funds may be invested only in the investments permitted under and in accordance with:

- (a) the provisions of Part V and Schedule 1 of the MPF Regulation and any codes and guidelines relating to investment practices issued by the MPF Authority, to the extent such provisions, codes and guidelines are applicable to approved pooled investment funds; and
- (b) Chapter 7 and Chapter 8.2 of the UTMF Code (where applicable) issued by the SFC.

For the avoidance of doubt, each Sub-Fund will adhere to the investment and borrowing restrictions contained in Part V and Schedule 1 of the MPF Regulation and any codes and guidelines relating to investment practices issued by the MPF Authority as well as the UTMF Code issued by the SFC, insofar as applicable and unless otherwise agreed with the SFC and the MPF Authority. In the event where there is any conflict between the restrictions imposed under the SFC and the MPF Authority, the more restricted approach will be adopted such that the requirements under both SFC and MPF Authority will be followed and complied.

A summary of the investment restrictions in respect of the Sub-Funds is as follows:

- (i) The aggregate value of each Sub-Fund's investments in, or exposure to, any single entity through the following may not exceed 10% of its total net asset value:
 - (a) investments in securities issued by that entity;
 - (b) exposure to that entity through underlying assets of financial derivative instruments; and
 - (c) net counterparty exposure to that entity arising from transactions of over-the-counter financial derivative instruments.
- (ii) Subject to (i), the aggregate value of each Sub-Fund's investments in, or exposure to, entities within the same group through the following may not exceed 20% of its total net asset value:
 - (a) investments in securities issued by those entities;
 - (b) exposure to those entities through underlying assets of financial derivative instruments; and
 - (c) net counterparty exposure to those entities arising from transactions of over-the-counter financial derivative instruments.

For the purposes of (ii) and (iii), entities which are included in the same group for the purposes of consolidated financial statements prepared in accordance with internationally recognized accounting standards are generally regarded as "entities within the same group".

- (iii) The value of each Sub-Fund's cash deposits made with the same entity or entities within the same group may not exceed 20% of its total net asset value, except under the following circumstances:
 - (a) cash held before the launch of each Sub-Fund and for a reasonable period thereafter prior to the initial subscription proceeds being fully invested; or
 - (b) cash proceeds from liquidation of investments prior to the merger or termination of each Sub-Fund, whereby the placing of cash deposits with various financial institutions would not be in the best interests of investors; or
 - (c) cash proceeds received from subscriptions pending investments and cash held for the settlement of redemption and other payment obligations, whereby the placing of cash deposits with various financial institutions be unduly burdensome and the cash deposits arrangement would not compromise investors' interests.

For the purpose of this sub-paragraph (iii), cash deposits generally refer to those that are repayable on demand or have the right to be withdrawn by the Sub-Fund and not referable to provision of property or services.

- (iv) Each Sub-Fund may not hold more than 10% of any ordinary shares issued by any single entity.
- (v) Notwithstanding (i), (ii) and (iv), up to 30% of each Sub-Fund's total net asset value may be invested in Government and other public securities of the same issue.
- (vi) Subject to (v), each Sub-Fund may invest all of its assets in Government and other public securities in at least six different issues. For the avoidance of doubt, Government and other public securities will be regarded as being of a different issue if, even though they are issued by the same person, they are issued on different terms whether as to repayment dates, interest rates, the identity of the guarantor, or otherwise.
- (vii) The value of a Sub-Fund's investment in units or shares in other collective investment schemes may not in aggregate exceed 10% of its total net asset value provided that the Manager or any person acting on behalf of the Fund or the Manager may not obtain a rebate on any fees or charges levied by such collective investment scheme or its manager or any quantifiable monetary benefits in connection with investments in any underlying scheme.

- (viii) No investment may be made in any underlying scheme the investment objective of which is to invest primarily in any investment prohibited by Chapter 7 of the UTMF Code.
- (ix) Each Sub-Fund may not invest in any type of real estate (including buildings) or interests in real estate (including options or rights but excluding shares in real estate companies and interests in real estate investment trusts (REITs)).
- (x) No short sale may be made.
- (xi) Subject to (xvi) and (xvii) below, the Sub-Fund may not lend, assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person.
- (xii) The Sub-Fund may not acquire any asset or engage in any transaction which involves the assumption of any liability which is unlimited.
- (xiii) The liability of Unitholders must be limited to their investments in a Sub-Fund.
- (xiv) Each Sub-Fund may not invest in any security of any class in any company or body if any director or officer of the Manager individually owns more than 0.5% of the total nominal amount of all the issued securities of that class or collectively the directors and officers of the Manager own more than 5% of those securities.
- (xv) The portfolio of a Sub-Fund may not include any security where a call is to be made for any sum unpaid on that security.
- (xvi) Borrowing securities for the purposes of the Sub-Fund is prohibited. However, the Manager may* allow securities held in the Sub-Fund to be loaned under a securities lending agreement of such terms as the Trustee may approve only if:
 - (a) the amount of the consideration (including the value of any collateral security) given for the securities exceeds the value of those securities by 5% of their value;
 - (b) no more than 10% of the net asset value of the Sub-Fund can be the subject of security lending agreements; and
 - (c) no more than 50% of shares of the same issue held in respect of the Sub-Fund can be the subject of security lending agreements.
- (xvii) The assets in the Sub-Fund should not be applied for the purpose of entering into a repurchase agreement unless the agreement is entered into by the custodian of the Sub-Fund and only if (a) the amount of the consideration (including the value of any collateral security) given for the relevant security exceeds the value of the security by 5% of its value; and (b) no more than 10% of the assets of the Sub-Fund are the subject of repurchase agreements; and (c) no more than 50% of the securities of the same issue held among the assets of the Sub-Fund are the subject of repurchase agreements.
- (xviii) The assets in the Sub-Fund should not be the subject of a reverse repurchase agreement under which the Trustee agrees to buy a debt security from a person and to resell it to that person at a specified date in the future for an agreed price.
- (xix) Certain Sub-Funds may enter into financial futures contracts, financial option contracts and currency forward contracts for hedging purposes. For the purposes of this sub-paragraph (xix), such instruments are generally considered as being acquired for hedging purposes if they meet all the following criteria:
 - (a) they are not aimed at generating any investment return;
 - (b) they are solely intended for the purpose of limiting, offsetting or eliminating the probability of loss or risks arising from the investments being hedged;
 - (c) although they may not necessarily reference to the same underlying assets, they should relate to the same asset class with high correlation in terms of risks and return, and involve taking opposite positions, in respect of the investments being hedged; and
 - (d) they exhibit price movements with high negative correlation with the investments being hedged under normal market conditions.
- (xx) The Manager shall at all times take reasonable steps to enable a Sub-Fund to meet all the payment and delivery obligations incurred by the Sub-Fund under transactions in financial futures contracts, financial option contracts or currency forward contracts. The Manager shall, as part of its risk management process, monitor to ensure that the transactions in financial futures contracts, financial option contracts and currency forward contracts are adequately covered on an ongoing basis. For the purpose of this sub-paragraph (xx), assets that are used to cover the Sub-Fund's payment and delivery obligations incurred under transactions in financial futures contracts, financial option contracts and currency forward contracts should be free from any liens and encumbrances, exclude any cash or near cash for the purpose of meeting a call on any sum unpaid on a security, and cannot be applied for any other purposes.
- (xxi) Subject to sub-paragraph (xx), a transaction in financial futures contracts, financial option contracts or currency forward contracts which gives rise to a future commitment or contingent commitment of a Sub-Fund should be covered as follows:
 - (a) in the case of transactions regarding the above-mentioned instruments which will, or may at the Sub-Fund's discretion, be cash settled, the Sub-Fund should at all times hold sufficient assets that can be liquidated within a short timeframe to meet the payment obligation; and

- (b) in the case of transactions regarding the above-mentioned instruments which will, or may at the counterparty's discretion, require physical delivery of the underlying assets, the Sub-Fund should hold the underlying assets in sufficient quantity at all times to meet the delivery obligation. If the Manager considers the underlying assets to be liquid and tradable, the Sub-Fund may hold other alternative assets in sufficient quantity as cover, provided that such assets may be readily converted into the underlying assets at any time to meet the delivery obligation.

**As at the date of this Explanatory Memorandum, the Manager does not have any intention to enter into any securities lending agreement, repurchase agreement and reverse repurchase transactions in respect of any Sub-Fund. If the Manager subsequently determines that a securities lending agreement, repurchase agreement or reverse repurchase transactions shall be entered into in respect of a Sub-Fund, prior written notice will be given to Unitholders and this Explanatory Memorandum will be updated to contain the relevant details of the securities lending arrangements.*

The net derivative exposure of the relevant Sub-Funds, which will enter into financial futures contracts, financial option contracts and currency forward contracts for hedging purposes, may be up to 50% of its net asset value.

Borrowing Restrictions

Subject to section 4 of Schedule 1 of the MPF Regulation, the provisions of the UTMF Code and any other statutory requirements and restrictions, borrowing may be effected by the Trustee for the account of the Sub-Funds.

In summary, the maximum borrowing of the Sub-Fund may not exceed 10% of its total net asset value.

A Sub-Fund will not incur any leverage arising from the use of any financial derivative instruments.

General

If any of the investment and borrowing restrictions are breached, the Manager shall as a priority objective take all steps necessary within a reasonable period to remedy the situation, having due regard to the interests of Unitholders.

Management and Administration

Manager

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

Principal Asset Management Company (Asia) Limited is specialized in portfolio management and asset management businesses.

Principal Asset Management Company (Asia) Limited is devoted to providing reliable and quality services to its clients and is committed to be a professional fund management house. Principal Asset Management Company (Asia) Limited is also the investment manager for a number of MPF schemes and approved pooled investment funds in Hong Kong. Principal Asset Management Company (Asia) Limited is licensed by the SFC for type 4 (advising on securities) and type 9 (asset management) regulated activities with CE number AFA235, subject to the licensing condition that for type 9 (asset management) regulated activities, it shall not provide a service of managing a portfolio of futures contracts for another person.

The global investment management function of the Manager in respect of the Fund is delegated to Principal Global Investors, LLC. Principal Global Investors, LLC is registered with the Securities and Exchange Commission under the USA regime. Principal Global Investors, LLC has sub-delegated its discretionary investment management function for Principal Hong Kong Bond Fund, Principal International Bond Fund and Principal European Equity Fund to Principal Global Investors (Europe) Limited ("PGI Europe"). PGI Europe is regulated by the Financial Services Authority of the United Kingdom. Principal Global Investors, LLC has sub-delegated its discretionary investment management function for Principal Asian Equity Fund, Principal China Equity Fund, Principal Hong Kong Bond Fund, Principal Hong Kong Dollar Savings Fund and Principal Hong Kong Equity Fund to Principal Global Investors (Hong Kong) Limited ("PGIHK"). PGIHK is regulated by the SFC.

Trustee and Registrar

The Trustee and the Registrar of the Fund is Principal Trust Company (Asia) Limited, a registered trust company incorporated in Hong Kong.

As a subsidiary of Principal Financial Group, Inc., Principal Trust Company (Asia) Limited has full access to a diversified network of financial services expertise in a variety of specialties, including investment funds, mutual funds, pension and insurance plans.

Under the Trust Deed, the Trustee shall take into custody or under its control all the investments, cash and other property forming part of the assets of the Fund and hold them in trust for the Unitholders of the Fund in accordance with the provisions of the Trust Deed and, to the extent permitted by law, any cash and registrable assets of the Fund shall be registered in the name of or to the order of the Trustee and be dealt with as the Trustee may think proper for the purpose of providing for the safekeeping thereof.

The Trustee, however, may appoint any person or persons to be the custodian of such assets or delegate any of its duties, powers or discretions under the Fund to any person or persons which the Trustee considers appropriate and may empower any such custodian to appoint, with the no objection in writing from the Trustee, sub-custodians. In so doing, the Trustee shall supervise and exercise proper control over the custodian and delegates so appointed or engaged.

The Trustee shall segregate the property of the Fund from the property of:

- (a) the Manager, any delegates of the Manager and their respective connected persons;
- (b) the Trustee and any nominees, agents or delegates throughout the custody chain; and
- (c) other clients of the Trustee and nominees, agents or delegates throughout the custody chain, unless held in omnibus account with adequate safeguards in line with international standards and best practices to ensure that the property of Trust Fund is properly recorded with frequent and appropriate reconciliations being performed.

The Trustee has put in place appropriate measures to verify ownership of the assets of the Trust Fund.

The Trustee is required to:

- (a) take reasonable care to ensure that the cash flows of the Fund are properly monitored;
- (b) fulfill such other duties and requirements imposed on the Trustee as set out in the UTMF Code, and exercise due skill, care and diligence in discharging its obligations and duties appropriate to the nature, scale and complexity of the Fund; and
- (c) establish clear and comprehensive escalation mechanisms to deal with potential breaches detected in the course of discharging its obligations and report material breaches to the SFC in a timely manner.

Issue of Units

Classes of Units

Six classes of Units are available in relation to each Sub-Fund of the Fund. The six classes of Units are:

- (i) Investment Class Units - Available to any collective investment schemes, registered schemes or approved pooled investment funds under the MPFS Ordinance, occupational retirement schemes or other institutional investors, to which the Pension Class Units are not made available.
- (ii) I6 Class Units - not being Investment Class Units and are available to registered schemes or approved pooled investment funds under the MPFS Ordinance or occupational retirement schemes which the Manager has offered a special management fee structure.
- (iii) Pension Class Units - Available to registered schemes or approved pooled investment funds under the MPFS Ordinance or occupational retirement schemes, which are managed by Principal Asset Management Company (Asia) Limited or other investment managers as may be determined by the Trustee or the Manager at their discretion.
- (iv) Retail Class Units - not being R2 and R6 Class Units and are available to retail investors and any other investors to which the Pension Class Units, I6 Class Units and Investment Class Units are not made available.
- (v) R2 Class Units - not being Retail Class Units or R6 Class Units. Available only to investors who at the time the relevant subscription order is received are customers of certain distributors appointed specifically for the purpose of distributing the R2 Class Units, and only in respect of those Sub-Funds for which distribution agreements have been made with such distributors.
- (vi) R6 Class Units - not being Retail Class Units or R2 Class Units and which intends to distribute dividends on a quarterly basis. Available to retail investors and any other investors to which the Pension Class Units, Investment Class Units and I6 Class Units are not made available.

Units in each class will be denominated in HK dollars.

Initial Issue of Units

- (A) Investment Class Units, Pension Class Units and Retail Class Units

The following classes of Units are currently available for subscription:

- (i) Investment Class Units of Principal Asian Equity Fund, Principal International Bond Fund, Principal U.S. Equity Fund, Principal Hong Kong Equity Fund, Principal China Equity Fund and Principal European Equity Fund;
- (ii) Pension Class Units of each of the Sub-Funds; and

- (iii) Retail Class Units of Principal Asian Equity Fund, Principal International Bond Fund, Principal International Equity Fund, Principal Hong Kong Dollar Savings Fund, Principal U.S. Equity Fund, Principal Hong Kong Equity Fund, Principal China Equity Fund and Principal Hong Kong Bond Fund.

All Units are denominated in Hong Kong dollars.

Units are being offered at an initial issue price of HK\$10.00 per unit (exclusive of any applicable initial charge). Dealing of the Units will commence on the Dealing Day immediately following the closure of its initial period.

Investment Class Units and Retail Class Units of the other Sub-Funds which have been established but not yet launched will be offered to investors at such other time and price as may be determined by the Trustee and the Manager. The information contained in this Explanatory Memorandum in respect of these classes of Units will therefore only be applicable when such classes of Units are offered.

The Manager may levy an initial charge on the issue of the Retail Class Units of each Sub-Fund. The maximum amount of such initial charge is 5% of the issue price of the Units.

No initial charge will be levied in respect of the issue of the Investment Class Units or Pension Class Units of the Sub-Funds.

(B) I6 Class Units

I6 Class Units of Principal Asian Equity Fund, Principal International Equity Fund, Principal Hong Kong Equity Fund and Principal European Equity Fund are currently available for subscription. All Units are denominated in Hong Kong dollars.

I6 Class Units of the other Sub-Funds which have been established but not yet launched will be offered to investors at such other time and price as may be determined by the Trustee and the Manager. The information contained in this Explanatory Memorandum in respect of I6 classes of Units will therefore only be applicable when such class of Units is offered.

Units are being offered at an initial issue price of HK\$10.00 per unit. Dealing of the Units will commence on the Dealing Day immediately following the closure of its initial period.

No initial charge will be levied in respect of the issue of I6 Class Units of the Sub-Funds.

(C) R2 Class Units

R2 Class Units of the Principal Hong Kong Equity Fund are currently available for subscription. All Units are denominated in Hong Kong dollars.

R2 Class Units of the other Sub-Funds which have been established but not yet launched will be offered to investors at such other time and price as may be determined by the Trustee and the Manager. The information contained in this Explanatory Memorandum in respect of R2 classes of Units will therefore only be applicable when such class of Units is offered.

Units are being offered at an initial issue price of HK\$10.00 per unit (exclusive of any applicable initial charge). Dealing of the Units will commence on the Dealing Day immediately following the closure of its initial period.

The Manager may levy an initial charge on the issue of R2 Class Units of each of the Sub-Funds set out above. The maximum amount of such initial charge is 5% of the issue price of the Units.

(D) R6 Class Units

R6 Class Units of the Principal Hong Kong Equity Fund, Principal China Equity Fund and Principal Hong Kong Bond Fund are currently available for subscription. All Units are denominated in Hong Kong dollars.

R6 Class Units of the other Sub-Funds which have been established but not yet launched will be offered to investors at such other time and price as may be determined by the Trustee and the Manager. The information contained in this Explanatory Memorandum in respect of R6 classes of Units will therefore only be applicable when such class of Units is offered.

Units are being offered at an initial issue price of HK\$10.00 per unit (exclusive of any applicable initial charge). Dealing of the Units will commence on the Dealing Day immediately following the closure of its initial period.

The Manager may levy an initial charge on the issue of R6 Class Units of each of the Sub-Funds set out above. The maximum amount of such initial charge is 5% of the issue price of the Units.

(E) Application for any class of Units during initial period generally

Applications for any class of Units must be made in the manner set out below under "Application Procedure". In respect of applications for the Units received by the Manager prior to 5:00 p.m. (Hong Kong time) on the last day of the initial period, Units will be issued on the Dealing Day following the close of the initial period. The original of any Application Form given by facsimile must

be forwarded to the Manager. Neither the Manager nor the Trustee shall be responsible to an investor for any loss resulting from non-receipt of any Application Form sent by facsimile.

Subsequent Issues of Units

After the initial period, applications for Units received by the Manager prior to 5:00 p.m. (Hong Kong time) on a Dealing Day will be dealt with on that Dealing Day, and Units will be issued at the issue price as at that Dealing Day. Where applications are received after such time or on a day which is not a Dealing Day, they will be carried forward and dealt with on the next Dealing Day.

The issue price of Units of the relevant class of a Sub-Fund on a Dealing Day will be calculated by reference to the net asset value per Unit of such class of that Sub-Fund as at close of business in the last relevant market to close on that Dealing Day (for further details, see “Calculation of Issue and Redemption Prices” on page 23 below). The Manager may levy an initial charge on the issue of the Retail Class Units, R2 Class Units and R6 Class Units. The maximum amount of such initial charge is 5% of the issue price of the Units. No initial charge will be levied on the issue of the Investment Class Units, I6 Class Units and Pension Class Units.

Minimum Subscription and Subsequent Holding

The minimum amounts of each subscription in each class of Sub-Fund during and after the initial period are set out below. Furthermore, the Manager may require a Unitholder to redeem all his Units in any class of Sub-Fund in full if by means of partial redemption the Unitholder’s holding in such class of Sub-Fund falls below the minimum balance requirements as follows:

	Initial subscription (inclusive of initial charges)	Each subsequent subscription (inclusive of initial charges)	Minimum balance
Investment Class Units	HK\$5,000,000	HK\$200,000	HK\$5,000,000
I6 Class Units	HK\$5,000,000	HK\$200,000	HK\$5,000,000
Pension Class Units	No minimum requirement	No minimum requirement	No minimum requirement
Retail Class Units	HK\$10,000	HK\$5,000	HK\$10,000
R2 Class Units	HK\$10,000	HK\$5,000	HK\$10,000
R6 Class Units	HK\$10,000	HK\$5,000	HK\$10,000

Investors should note that no minimum requirement is imposed in respect of Pension Class Units of the Sub-Funds. In addition, notwithstanding the minimum subscription or minimum holding requirements imposed in respect of Investment Class Units and I6 Class Units of the Sub-Funds, no such requirements will be applicable to a person who is acting as the trustee of a registered scheme (or trustee or insurer of an approved pooled investment fund) under the MPFS Ordinance which scheme (or fund) invests in the Investment Class Units or I6 Class Units of the Sub-Fund(s) by way of a feeder fund or portfolio management fund arrangement. Further, the Manager may at its own discretion lower or waive any of the above minimum requirements for any other Unitholder.

Application Procedure

Applications for Units must be made by completing the enclosed Master Account Opening Form and Subscription Form and sending the forms to the Manager. The original of any Master Account Opening Form and Subscription Form given by facsimile must be forwarded to the Manager. Neither the Manager nor the Trustee shall be responsible to an investor for any loss resulting from non-receipt of any Master Account Opening Form and Subscription Form sent by facsimile.

Payment Procedure

Payment for Units and any applicable initial charge may be made by cheque, payable to Principal Trust Company (Asia) Limited – Unit Trust Subscription Account and crossed “A/C Payee Only, Not Negotiable” or by telegraphic transfer net of all bank charges (i.e. at the expense of the applicant). The account details are as follows:

Name: : Citibank N.A. Hong Kong

Account Name : Principal Trust Company (Asia) Limited – Principal Unit Trust Client Account Subscription

Account No : HK dollars 006-391-61239968
US dollars 006-391-61239976

Payment for Units shall be due (i) prior to the close of the initial period (for subscriptions of Units during the initial period); or (ii) upon issue of the Units (for subsequent issue of Units after the initial period). If cleared fund is not received on the relevant due date, the Manager may, without prejudice to any claim against the applicant in respect of the failure to make payment when due, determine in its discretion that the application be cancelled. In such circumstances, the relevant Units shall be deemed never to be issued. Furthermore, no redemption or switching transactions may be effected until the initial subscription has been completed.

Payment should be made in Hong Kong dollars or U.S. dollars in one of the ways set out in the Subscription Form. Arrangements can be made for applicants to pay for Units in other freely convertible currencies and in such cases, the Trustee or the Manager shall use such currency exchange rates as they may from time to time determine. The cost of currency conversion will be borne by the applicant. Conversion of currencies may involve some delay. Third party cheques and cash are not accepted. No money should be paid to an intermediary in Hong Kong who is not licensed or registered to carry on Type 1 regulated activity under Part V of the Securities and Futures Ordinance.

General

Units issued by the Fund will be held for investors in registered form. Certificates will not be issued. A contract note will be issued upon acceptance of an investor's application and will be forwarded by ordinary post (at the risk of the person entitled thereto).

Fractions of a Unit will be issued and will be rounded to the nearest 4th decimal places (or such other number of decimal places as the Manager may consider appropriate). Any amount corresponding to the rounding will be borne by or retained for the relevant Sub-Fund.

The Manager has an absolute discretion to accept or reject in whole or in part any application for Units (except that the Manager shall accept any duly completed applications made by a person who is acting as the trustee of a registered scheme (or trustee or insurer of an approved pooled investment fund) under the MPFS Ordinance which scheme (or fund) invests in the Sub-Fund(s) by way of a feeder fund or portfolio management fund arrangement). In the event that an application is rejected, application monies will be returned without interest by cheque through the post at the risk of the person(s) entitled thereto. No Units of a Sub-Fund will be issued where the determination of the net asset value of that Sub-Fund is suspended (for further details see "Suspension of Calculation of Net Asset Value" on page 24 below).

Redemption of Units

Subject as mentioned below, any Unitholder may realise his Units on any Dealing Day in whole or in part. No redemption charge will be levied for the redemption of Units of the 10 Sub-Funds. A redemption request may be given to the Manager in writing or by facsimile and must specify:

- (a) the name of the relevant Sub-Fund;
- (b) the class and number of Units or the amount of monies to be redeemed;
- (c) the name(s) of the registered holder(s); and
- (d) payment instructions for the redemption proceeds.

The original of any redemption request given by facsimile must be forwarded to the Manager. Neither the Manager nor the Trustee shall be responsible to a Unitholder for any loss resulting from non-receipt of any redemption request sent by facsimile.

Redemption requests received by the Manager prior to 5:00 p.m. (Hong Kong time) on a Dealing Day will be dealt with on that Dealing Day. Redemption requests received by the Manager after such time or on a day which is not a Dealing Day will be carried forward and dealt with on the next Dealing Day. Units of the relevant class realised on a Dealing Day will be redeemed at a price calculated by reference to the net asset value per Unit of that class of the relevant Sub-Fund as at close of business in the last relevant market to close on that Dealing Day (for further details, see "Calculation of Issue and Redemption Prices" on page 23 below).

Payment of Redemption Proceeds

Redemption proceeds will not be paid to any redeeming Unitholder until (a) the written original of the redemption request duly signed by the Unitholder has been received by or on behalf of the Manager and (b) where the Trustee so requires, the signature of the Unitholder (or each joint Unitholder) has been verified to the satisfaction of the Trustee.

Redemption proceeds from the Sub-Funds will normally be paid in HK dollars, rounded down to the nearest cent. Unitholders may, however, request the proceeds to be paid in other currencies, in which case, the proceeds may be converted to the requested currency at the prevailing exchange rate. Any exchange rate risk will be borne by the Unitholder concerned and the Unitholder may be required to pay a handling fee.

Subject as mentioned above and so long as relevant account details have been provided, redemption proceeds will be paid by telegraphic transfer (less the cost of effecting such telegraphic transfer), normally within 7 Business Days after the relevant Dealing Day. In any event, the maximum interval for the payment of the redemption proceeds will not exceed one calendar month from (i) the relevant Dealing Day or (ii) the date on which the duly completed original redemption documentation has been received by the Manager, whichever is the later (unless payment of redemption proceeds has been suspended – see “Restrictions on Redemption” below). Request by the redeeming Unitholder to make the payment to a third party will not be accepted unless approval is obtained from the Manager or additional supporting documents as may be required by the Trustee are provided. Where a redemption request provides for the redemption proceeds to be paid to any person other than the registered Unitholder(s) or to be paid by telegraphic transfer to a bank account in New York or Hong Kong, the signature of the Unitholder or (in the case of joint Unitholders) each Unitholder on that redemption request must be verified to the satisfaction of the Trustee. If relevant account details are not provided, redemption proceeds will be paid to the redeeming Unitholder (or to all Unitholders in case of joint Unitholders) at the Unitholder’s risk by cheque in HK dollars. In the case of joint Unitholders, the cheque will be drawn in the names of all Unitholders. Bank charges (if any) incurred in making payment will be borne by the redeeming Unitholder and accordingly will be deducted from the redemption proceeds.

Payment of Redemption Proceeds by Distribution in Specie

Notwithstanding the above, the Manager may in certain circumstances with the consent of the Unitholders concerned effect a redemption payment to the redeeming Unitholders in specie or in kind rather than in cash. The circumstances in which the Manager envisages effecting such a redemption payment include, without limitation, a situation where substantial redemption requests are received by the relevant Sub-Fund which will make it impracticable to realise the underlying securities in order to fund the redemption payments. In making redemption payments in specie or in kind, the Manager will use the same valuation procedures used in determining the net asset value of the Sub-Fund (for further details, see “Calculation of Net Asset Value and Issue and Redemption Prices” on page 23 below) when determining the value to be attributed to the relevant securities to be transferred or assigned or otherwise made available to the redeeming Unitholders. Redeeming Unitholders will then receive securities of a value equal to the redemption payment to which they would otherwise be entitled. Redeeming Unitholders receiving the redemption payment in specie or in kind will be responsible for all custody and other costs involved in changing the ownership of the relevant securities from the Sub-Fund to the redeeming Unitholder and for all ongoing custody costs in respect of such securities.

Restrictions on Redemption

The Manager shall suspend the redemption of Units and/or may delay the payment of redemption proceeds during any periods in which the determination of the net asset value of the relevant Sub-Fund is suspended (for further details see “Suspension of Calculation of Net Asset Value” on page 24 below).

Having regard to the best interests of Unitholders, the Manager is entitled, with the approval of the Trustee, to limit the total net asset value or total number of Units of any Sub-Fund redeemed on any Dealing Day (whether by sale to the Manager or by cancellation by the Trustee) to Units representing 10% of the total net asset value or the total number of Units of any Sub-Fund in issue, respectively. In this event, the limitation will apply pro rata so that all Unitholders of the relevant class or classes wishing to redeem Units in that Sub-Fund on that Dealing Day will redeem the same proportion by value of such Units, and Units not redeemed (but which would otherwise have been redeemed) will be carried forward for redemption, subject to the same limitation, on the next Dealing Day. If requests for redemption are so carried forward, the Manager will inform the Unitholders concerned.

In addition,

- (i) no Unitholder shall be entitled to realise part only of his holding of Units of any class of Sub-Fund if such redemption would result in his holding in that class of Sub-Fund after such redemption being less than the minimum balance requirements as set out in “Issue of Units - Minimum Subscription and Subsequent Holding” on page 20; and
- (ii) Unitholders are not allowed to realise any Units prior to the date falling seven days after the Dealing Day on which such Unit was acquired by such Unitholders or if earlier, the date of receipt of payment in cleared funds for such Unit.

Notwithstanding the above, neither of the restrictions in (i) nor (ii) will be applicable to a person who is acting as the trustee of a registered scheme (or trustee or insurer of an approved pooled investment fund) under the MPFS Ordinance which scheme (or fund) invests in the Pension Class Units, Investment Class Units or I6 Class Units of the Sub-Fund(s) by way of a feeder fund or portfolio management fund arrangement.

As at the date of this Explanatory Memorandum, there is no minimum redemption requirement in respect of redemption of any class of Sub-Funds. If the Manager subsequently determines that a minimum redemption requirement will be imposed, prior notice will be given to the Unitholders.

Switching between Sub-Funds

Subject to the consent of the Manager, Unitholders will have the right (subject to any suspension in the determination of the net asset value of any relevant Sub-Fund) to switch all or part of their Units of any class relating to a Sub-Fund into Units of the same class relating to another Sub-Fund by giving to the Manager notice in writing or by facsimile or such other means as the Manager may from time to time prescribe.

Switching requests received by the Manager prior to 5:00 p.m. (Hong Kong time) on a Dealing Day will be dealt with on that Dealing Day. Switching requests received after such time or on a day which is not a Dealing Day will be carried forward and dealt with on the next Dealing Day. Where a switching request is made by facsimile, neither the Manager nor the Trustee shall be responsible to any Unitholder for any loss resulting from the non-receipt of such switching request.

The price at which the whole or any part of a holding of Units of a class relating to a Sub-Fund (the “Current Class”) will be switched on any Dealing Day into Units of the same class relating to another Sub-Fund (the “New Class”) will be determined by reference to the redemption price of the Current Class and issue price of the New Class on the relevant Dealing Day.

In respect of switching of Units of the Investment Class, I6 Class, Retail Class, R2 Class and R6 Class, the Manager is entitled to levy a switching fee of up to 1% of the issue price per Unit of the New Class to be issued. The switching fee will be deducted from the amount re-invested into the New Class of Units. However, each Unitholder will be entitled to have 4 free switches in each calendar year before any such switching fee may be levied. No switching fee will be levied for switching of Units of the Pension Class.

No switching will be allowed during any period when the determination of the net asset value of any relevant Sub-Fund is suspended (for further details, see “Suspension of Calculation of Net Asset Value” on page 24). Unitholders should also note that the requirements on minimum subscription and subsequent holding as set out in the section “Minimum Subscription and Subsequent Holding” on page 20 and the restrictions on redemption (including the minimum holding requirement after redemption and the minimum redemption amount) as set out in the section “Restrictions on Redemption” on page 22 shall also be applicable in the case of switching.

Calculation of Net Asset Value and Issue and Redemption Prices

The Manager or the Trustee (as they may between them decide) will value each Sub-Fund and calculate the issue and redemption prices per Unit of each class in accordance with the Trust Deed as at close of business in the last relevant market to close on each Dealing Day. The Trust Deed provides (inter alia) that the value of the investments in the Sub-Funds shall be determined as follows:

- (i) except in the case of any interest in a collective investment scheme to which paragraph (ii) applies and subject as provided in paragraph (vi) below, the value of any investments quoted, listed, or normally dealt in on any market shall be calculated by reference to the last traded price on the relevant Dealing Day or (if no last traded price is available) midway between the latest available market offered price and the latest available market bid price on the principal market on which such investments is quoted, listed or ordinarily dealt in and in determining such prices the Manager and the Trustee shall be entitled to use and rely on electronic price feeds from such source or sources as it may from time to time determine notwithstanding that the prices so used are not the last traded prices;
- (ii) subject as provided in paragraphs (iii) and (vi) below, the value of each unit, share or other interest in any collective investment scheme which is valued as at the same day as the relevant Sub-Fund shall be the net asset value per unit or share in such collective investment scheme as at that day or, if the Manager so determines, or if such collective investment scheme is not valued as at the same day as the Sub-Fund, the value of such interest shall be the last available net asset value per unit, share or other interest in such collective investment scheme;
- (iii) if no net asset value, bid and offer prices or price quotations are available as provided in paragraph (ii) above, the market value of the relevant investment shall be determined from time to time in such manner as the Manager shall determine;
- (iv) the value of any investment which is not quoted, listed or ordinarily dealt in on a market shall be the initial value thereof equal to the amount expended out of the relevant Sub-Fund in the acquisition of such investment (including in each case the amount of stamp duties, commissions and other acquisition expenses) provided that the Manager may at any time with the approval of the Trustee and shall on a regular basis, cause a revaluation to be made by a professional person approved by the Trustee as qualified to value such investments;
- (v) cash, deposits and similar investments shall be valued at their face value (together with accrued interest) unless, in the opinion of the Manager, any adjustment should be made to reflect the market value thereof;
- (vi) notwithstanding the foregoing, the Manager may with the prior consent in writing of the Trustee adjust the value of any investment or permit some other method of valuation to be used with due skill, care and diligence and in good faith if, having regard to relevant circumstances, the market value of the investment is unavailable, or the Manager considers that the market value of the investment is not reliable or reflective of an exit price upon current sale; and
- (vii) the value of any investment (whether of a security or cash) otherwise than in the currency of the relevant Sub-Fund shall be converted into the currency of such Sub-Fund at the rate (whether official or otherwise) which the Manager shall deem appropriate in the circumstances having regard to any premium or discount which may be relevant and to costs of exchange.

Calculation of Issue and Redemption Prices

The number of undivided shares in a Sub-Fund represented by a Unit of a class relating to such Sub-Fund is adjusted on each Dealing Day in order to take account of the different levels of fees borne by the different classes of Unit in the relevant Sub-Fund.

The issue and redemption prices of Units of a class on a Dealing Day shall be determined by (i) calculating the net asset value of the relevant Sub-Fund as at such Dealing Day before the deduction of any liabilities or the addition of any assets attributable specifically to the class in question; (ii) apportioning such amount between each class of Units relating to such Sub-Fund by reference to the numbers of undivided shares in the relevant Sub-Fund represented by all Units of each class relating to such Sub-Fund in issue; (iii) deducting or adding the liabilities and assets specifically attributable to the class of Units in question from or to such apportioned amount; (iv) dividing the resulting sum by the number of Units of the relevant class in issue immediately prior to the relevant Dealing Day for such class of Units; and (v) rounding the resulting sum down to 4 decimal places of the base currency of the relevant Sub-Fund (for the determination of issue price) and rounding the resulting sum down to 4 decimal places of the base currency of the relevant Sub-Fund (for the determination of the redemption price), or in either case, in such other manner as the Manager may consider appropriate. Any amounts corresponding to the rounding up or down of the prices shall be retained for the benefit of the relevant Sub-Funds.

The Manager is entitled to an initial charge of up to 5% of the issue price on the issue of the Retail Class Units, R2 Class Units and R6 Class Units. Such initial charge will be retained by the Manager for its own use and benefit. The Manager may waive or reduce the initial charge for any Unitholder as the Manager may consider appropriate.

No initial charge will be levied for the issue of Investment Class Units, I6 Class Units and Pension Class Units of any Sub-Funds.

No redemption charge will be levied on the redemption of Units of the 10 Sub-Funds.

Any roundings as a result of determining the issue price or redemption price shall be retained for the benefit of the relevant Sub-Fund.

Suspension of Calculation of Net Asset Value

The Manager may, in consultation with the Trustee, having regard to the best interests of Unitholders, declare a suspension of the determination of the net asset value of any Sub-Fund for the whole or any part of any period during which:

- (a) there is a closure or restriction or suspension of trading on any securities market on which a substantial part of the investments of that Sub-Fund is normally traded or a breakdown in any of the means normally employed in ascertaining the prices of investments or the price of Units; or
- (b) for any other reason the prices of investments of that Sub-Fund cannot, in the opinion of the Manager, reasonably, promptly and fairly be ascertained; or
- (c) circumstances exist as a result of which, in the opinion of the Manager, it is not reasonably practicable to realise any investments of that Sub-Fund or it is not reasonably practicable to do so without seriously prejudicing the interests of Unitholders in such Sub-Fund; or
- (d) the remittance or repatriation of funds which will or may be involved in the redemption of, or in the payment for, the investments of that Sub-Fund or the subscription or redemption of Units is delayed or cannot, in the opinion of the Manager, be carried out promptly at normal rates of exchange.

Whenever the Manager declares such a suspension it shall, immediately after any such declaration and at least once a month during the period of such suspension, publish a notice on the website www.principal.com.hk¹ and/or cause a notice to be given to Unitholders and to all those (whether Unitholders or not) whose applications to subscribe for or redeem Units shall have been affected by such suspension stating that such declaration has been made.

Subject to the approval of the MPF Authority and the SFC, the Manager may change the valuation and pricing methodology as provided in the above by giving a three month prior notice (or such other shorter notice as the SFC may approve) to the Unitholders. However, as at the date of this Explanatory Memorandum, there is no circumstance within the contemplation of the Manager which may give rise to a change in the valuation or pricing methodology. The Manager will regularly review any such prolonged suspension and take all necessary steps to resume normal operations as soon as practicable.

Distribution Policy

For Investment Class Units, I6 Class Units, Pension Class Units, Retail Class Units and R2 Class Units

The Manager currently does not intend to make distributions in respect of the Investment Class Units, I6 Class Units, Pension Class Units, Retail Class Units and R2 Class Units of any Sub-Fund and any income earned by such classes of a Sub-Fund will be reinvested in the relevant class or classes of that Sub-Fund and reflected in the value of Units of the relevant class or classes of that Sub-Fund. If the Manager intends to make any distributions in respect of any such class or classes of a Sub-Fund, the Manager will give the relevant Unitholders 3 months' notice (or such other period of as the MPF Authority and the SFC may require).

¹ The website has not been reviewed by the SFC.

For R6 Class Units

For R6 Class Units of any Sub-Fund, the Manager at present intends to distribute all income or any part thereof received by the relevant Sub-Fund and attributable to such Units generally on a quarterly basis in March, June, September and December each year. However, this is not a guarantee that such distributions will be made or that there will be a target level of income distribution for any Sub-Fund. The level and frequency of the income distributed by any Sub-Fund does not necessarily indicate the total return and income of such Sub-Fund.

However, the Manager may determine at its absolute discretion that no distribution shall be made (whether by way of interim distribution or final distribution) in respect of R6 Class Units of any Sub-Fund.

Subject to receipt of dividend yields from the Sub-Fund's underlying investments, where distributions payable to a Unitholder exceed HK\$500, such distributions will normally be paid by cheque by post (in HK dollars), at the risk of the Unitholder entitled thereto. Unitholders may also receive distribution payments through telegraphic transfer (after deduction of the relevant bank charges) by giving prior written instructions to the Manager. Distributions will normally be made within eight weeks following the end of the relevant distribution period. Currently, the end dates of the quarterly distribution periods of R6 Class Units are 31 March, 30 June, 30 September and 31 December each year.

Unitholders may by giving written instructions to the Manager elect to reinvest distributions to which they are entitled in subscribing for further Units in the Sub-Fund. Any distributions currently below HK\$500 will automatically be reinvested in additional Units for the account of the Unitholder entitled thereto.

The Manager may, in accordance with Clause 19.07 of the Trust Deed of the Fund, at its discretion determine to deduct all or any part of the fees as well as the expenses attributable to a Sub-Fund from the capital of that Sub-Fund. If the Manager pays dividends (if any) out of gross income while paying all or part of the fees and expenses attributable to R6 Class Units out of the capital of such Units, this will result in an increase in distributable income for the payment of dividends and the R6 Class Units of the relevant Sub-Fund may therefore effectively pay dividends paid out of capital.

Investors should note that payment of dividends effectively out of capital amounts to a return or withdrawal of part of his/her original investment in the R6 Class Units of the relevant Sub-Fund or from any capital gains attributable to that original investment. Any distributions involving payment of dividends effectively out of the capital of the R6 Class Units of a Sub-Fund may result in an immediate reduction of the net asset value per Unit for such class of the relevant Sub-Fund.

Subject to prior approval of the SFC, the Manager may amend the above-mentioned dividend policy in respect of R6 Class Units of any Sub-Fund in the future by giving the affected Unitholders not less than one 1 month's notice of such change.

Commencing from the date on which payment of dividends is being made effectively out of the capital of a Sub-Fund, the composition of the dividends (i.e. the relative amounts (i) paid out of net distribution income and (ii) effectively paid out of capital) for the last 12 months for such Sub-Fund will be able to be obtained from the Manager on request and are also available from the website www.principal.com.hk¹. The website has not been reviewed by the SFC.

Regular Savings Plan

Investors who invest in Retail Class Units may elect to participate in the regular savings plan offered by the Manager. Under the regular savings plan, investors should make monthly contributions to his regular savings plan account on the 10th day of each month and the amount of each such contribution shall not be less than HK\$2,000 (inclusive of any initial charge). Investors may also decide the period during which they want to participate in the regular savings plan in accordance with their own need and financial planning and there is no minimum participating period prescribed for the plan. No fees will be levied on the opening and closure of the regular savings plan account.

An investor does not need to be an existing Unitholder in order to participate in the regular savings plan.

Contributions to the regular savings plan must be made through direct debit from such bank account as may be designated by the Unitholder. If an investor decides to participate in the regular savings plan, he must submit an application to the Manager at least 60 days before the day on which the first contribution is proposed to be made and successfully arrange for the direct debit authorisation before the first contribution. Any application must be made in the format prescribed by the Manager. If the 10th day of the month is not a Business Day, the direct debit will be effected on the Business Day which immediately follows. If, as a result of the default of the investor, the direct debit cannot be effected successfully on the 10th day of a month or (in the event that the 10th day of the month is not a Business Day) the Business Day which immediately follows, no subscription will be accepted for that month under the regular savings plan. Furthermore, if as a result of the default of the investor, the direct debit cannot be effected successfully for 2 consecutive months, the regular savings plan will be suspended and no further contributions will be accepted under the plan until the investor submits a request to the Manager to re-activate the plan and such request has been accepted by the Manager.

¹ The website has not been reviewed by the SFC.

Contributions made under the regular savings plan will be invested in Retail Class Units of such Sub-Fund or Sub-Funds which the investors may from time to time decide provided that the investment in a Sub-Fund each time must not be less than HK\$2,000 (inclusive of any applicable initial charge). Units will normally be issued to the Unitholders as at the fifth Business Day after the day on which the direct debit is made.

Investor should also note that the minimum requirements relating to initial subscription and minimum balance under “Minimum Subscription and Subsequent Holding” on page 20 will still be applicable for investments under the regular savings plan.

Investors may switch their Retail Class Units of any Sub-Fund under the regular savings plan to the same class of Units in another Sub-Fund in accordance with the provisions set out in the “Switching Between Sub-Funds” section on page 22.

Investors should note that unless the Manager agrees otherwise, a 14-day prior notice must be given to the Manager for cessation of contributions in the regular savings plan and a 21-day prior notice must be given to the Manager for any amendment made to the regular savings plan.

The regular savings plan is not available to investors who invest in Investment Class Units, I6 Class Units, R2 Class units, R6 Class Units or Pension Class Units of the Sub-Funds.

Charges and Expenses

Charges and expenses may be deducted from the Fund and its Sub-Funds as set out in this section below.

Management Fee

The Manager is entitled to receive a management fee for each Sub-Fund calculated as a percentage of the net asset value of the relevant class of Units of Sub-Fund. The management fee will be deducted from the assets of the relevant Sub-Funds. The maximum management fee for each class of Units of each Sub-Fund is 2% per annum of its net asset value. The management fee which the Manager may currently levy shall be as follows:

Management Fee (p.a.) for the different class of Units							
	Investment Class Units	I6 Class Units	Pension Class Units	R2 Class Units	Retail Class Units	R6 Class Units	
1. Principal Asian Equity Fund	0.90%	0.80%	Nil	1.20%*	1.20%	1.20%*	
2. Principal International Bond Fund	0.80%	0.80%*	Nil	1.00%*	1.00%	1.00%*	
3. Principal International Equity Fund	1.00%*	0.80%	Nil	1.20%*	1.20%	1.20%*	
4. Principal Hong Kong Dollar Savings Fund	0.60%*	0.80%*	Nil	0.25%*	0.25%	0.25%*	
5. Principal U.S. Equity Fund	1.00%	0.80%*	Nil	1.20%*	1.20%	1.20%*	
6. Principal Hong Kong Equity Fund	1.00%	0.80%	Nil	1.20%	1.20%	1.20%	
7. Principal China Equity Fund	1.00%	0.80%*	Nil	1.50%*	1.50%	1.50%	
8. Principal European Equity Fund	1.00%	0.80%	Nil	1.50%*	1.50%*	1.50%*	
9. Principal Pension Bond Fund	0.80%*	0.80%*	Nil	1.00%*	1.00%*	1.00%*	
10. Principal Hong Kong Bond Fund	Investor of the Investment Class Units will be notified of the management fee charge upon the launch of the Investment Class Units at a time to be determined by the Trustee and the Manager	0.80%*	Nil	0.50%*	0.50%	0.50%	

*Note: These Unit classes have not been launched for the relevant Sub-Funds.

Currently, no management fee will be levied for Pension Class Units of the Sub-Funds.

The management fee is accrued daily, calculated on each Dealing Day and is paid monthly in arrears.

The Manager may decrease the rate of management fee in respect of any class of Units of Sub-Fund by giving a notice to the Trustee. Subject to the approval of the MPF Authority, the Manager may also increase the rate of management fee payable up to the maximum rate as set out above by giving the affected Unitholders and the Trustee not less than 3 months' notice (or such other period of notice as the MPF Authority and the SFC may require) of such increase.

Initial Charge, Redemption Charge and Switching Fee

The Manager is entitled to receive an initial charge of up to 5% of the issue price on the issue of Retail Class Units, R2 Class Units and R6 Class Units in each Sub-Fund. In the switching of Units of the Investment Class, I6 Class, Retail Class, R2 Class or R6 Class, the Manager is entitled to levy a switching fee of up to 1% of the issue price of the new class of Units to be issued. However, each Unitholder will be entitled to have 4 free switches in each calendar year.

No initial charge will be levied for the issue of Pension Class Units, Investment Class Units and I6 Class Units and no switching fee will be levied for the switching of Pension Class Units.

No redemption charge will be levied on redemption of Units of the 10 Sub-Funds.

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

Trustee Fee

The Trustee is entitled to receive a trustee fee in respect of each Sub-Fund. The maximum trustee fee for each class of Units of each Sub-Fund is 1% per annum of its net asset value. The trustee fee which the Trustee may currently levy shall be as follows:

Trustee Fee (p.a.) for the different class of Units						
	Investment Class Units	I6 Class Units	Pension Class Units	R2 Class Units	Retail Class Units	R6 Class Units
1. Principal Asian Equity Fund	0.20%	0.20%	Nil	0.20%*	0.20%	0.20%*
2. Principal International Bond Fund	0.20%	0.20%*	Nil	0.20%*	0.20%	0.20%*
3. Principal International Equity Fund	0.20%*	0.20%	Nil	0.20%*	0.20%	0.20%*
4. Principal Hong Kong Dollar Savings Fund	0.20%*	0.20%*	Nil	0.20%*	0.20%	0.20%*
5. Principal U.S. Equity Fund	0.20%	0.20%*	Nil	0.20%*	0.20%	0.20%*
6. Principal Hong Kong Equity Fund	0.20%	0.20%	Nil	0.20%	0.20%	0.20%
7. Principal China Equity Fund	0.20%	0.20%*	Nil	0.20%*	0.20%	0.20%
8. Principal European Equity Fund	0.20%	0.20%	Nil	0.20%*	0.20%*	0.20%*
9. Principal Pension Bond Fund	0.20%*	0.20%*	Nil	0.20%*	0.20%*	0.20%*
10. Principal Hong Kong Bond Fund	Investor of the Investment Class Units will be notified of the trustee fee charge upon the launch of the Investment Class Units at a time to be determined by the Trustee and the Manager	0.20%*	Nil	0.20%*	0.20%	0.20%

*Note: These Unit classes have not been launched for the relevant Sub-Funds.

The trustee fee will be deducted from the assets of the relevant Sub-Funds. In respect of each Sub-Fund, the Trustee may decrease the rate of trustee fee in respect of any class of Units or, subject to the approval of the MPF Authority, increase the rate of the trustee fee up to the maximum rate as set out above by giving the affected Unitholders and the Manager not less than 3 months' notice (or such other period of notice as the MPF Authority and the SFC may require) of such increase. The trustee fee is accrued daily, calculated on each Dealing Day and is paid monthly in arrears.

Subject to the approval of the MPF Authority and the SFC, the Trustee and the Manager may increase the maximum levels of the above fees and charges in respect of the Pension Class Units, Investment Class Units and I6 Class Units of any Sub-Fund by giving to the Unitholders concerned 3 months' prior written notice (or such other period of notice as the MPF Authority and the SFC may require). Subject to the sanction of an Extraordinary Resolution of the Unitholders concerned, the Trustee and the Manager may increase the maximum levels of the fees and charges in respect of the Retail Class Units, R2 Class Units and R6 Class Units of any Sub-Fund.

In addition, the Trustee is entitled to a valuation fee in accordance with its normal scales as agreed with the Manager. Currently, the valuation fee for each Sub-Fund will not exceed HK\$1,000 per month.

Distribution Fee

Distributors of the Fund are entitled to receive a distribution fee in respect of R2 Class Units of each Sub-Fund where distribution agreements have been made with such distributors specifically for the purpose of distributing R2 Class Units. The distribution fee is calculated as a percentage of the net asset value of the relevant class of Units of Sub-Fund, accrued daily and will be deducted from the assets of the R2 Class Units of the relevant Sub-Fund. The advertising and promotion expenses in connection with the Fund will not be paid by the Fund's assets. The distribution fee for R2 Class Units of each Sub-Fund is 0.5% per annum of its net asset value. Subject to the giving of 3 month's written notice (or such other period of notice which the MPF Authority and the SFC may require) to the relevant Unitholders, the distribution fee may be increased or the distribution fee may be levied for any other classes of Units.

Other Charges and Expenses

Each Sub-Fund will bear the costs set out in the Trust Deed which are directly attributable to it. Where such costs are not directly attributable to a Sub-Fund, each Sub-Fund will bear such costs in proportion to its respective net asset value or in such other manner as the Manager shall consider appropriate. Such costs include but are not limited to the costs incurred in the establishment, structuring, management and administration of the Fund and its Sub-Funds, the costs of investing and realizing the investments of the Sub-Funds, the fees and expenses of custodians and sub-custodians of the assets of the Fund, the fees and expenses of the auditors, valuation costs, legal fees, the costs incurred in connection with any listing or regulatory approval, the costs of holding meetings of Unitholders, the costs incurred in the preparation and printing of any explanatory memorandum, any audited accounts or interim reports which are sent to the Unitholders and the costs incurred in effecting and maintaining insurance required by the MPF Ordinance. The current fees and expenses charged by the custodian and sub-custodian include a safekeeping fee (which may range from 0.01% to 0.5% of the value of the assets) and a transaction fee. These fees and expenses may also be subject to change in future.

In addition, each Sub-Fund will bear a due proportion of the costs and expenses incurred by the Manager and the Trustee in establishing the Fund. These costs and expenses are estimated to be approximately HK\$1,000,000 (exclude Principal Hong Kong Equity Fund, Principal China Equity Fund, Principal European Equity Fund and Principal Pension Bond Fund) and may be allocated to the Investment Class Units and Retail Class Units of the Sub-Funds in accordance with their respective net asset values (or such other basis which the Manager considers fair and appropriate) and amortised over the first five years of the Fund.

The Principal Hong Kong Equity Fund will bear the costs and expenses incurred by the Manager and the Trustee in its establishment. Such costs and expenses are estimated to be approximately HK\$150,000 and will be charged to the Retail Class Units only and amortised over the first five years of the Retail Class Units being offered.

The Principal China Equity Fund will bear the costs and expenses incurred by the Manager and the Trustee in its establishment. Such costs and expenses are estimated to be approximately HK\$40,000 and will be charged to the Investment Class Units, the Pension Class Units and the Retail Class Units and amortised over the first five years of the Principal China Equity Fund being offered.

The Principal Hong Kong Bond Fund will bear the costs and expenses incurred by the Manager and the Trustee in its establishment. Such costs and expenses are estimated to be approximately HK\$10,000 and will be charged to and be amortised over the first five years of the Principal Hong Kong Bond Fund being offered.

I6 Class Units will bear the costs and expenses incurred by the Manager and the Trustee in its establishment. Such costs and expense are estimated to be approximately HK\$150,000 and will be allocated to the I6 Class Units of the Sub-Funds in accordance with their respective net asset values (or such other basis which the Manager considers fair and appropriate) and amortised over the first five years of I6 Class Units being offered.

R2 Class Units will bear the costs and expenses incurred by the Manager and the Trustee in its establishment. Such costs and expense are estimated to be approximately HK\$0 and will be allocated to the R2 Class Units of the Sub-Funds in accordance with their respective net asset values (or such other basis which the Manager considers fair and appropriate) and amortised over the first five years of R2 Class Units being offered.

R6 Class Units will bear the costs and expenses incurred by the Manager and the Trustee in its establishment. Such costs and expense are estimated to be approximately HK\$0 and will be allocated to the R6 Class Units of the Sub-Funds in accordance with their respective net asset values (or such other basis which the Manager considers fair and appropriate) and amortised over the first five years of R6 Class Units being offered.

In addition to the above, Unitholders may be required to pay any requisite governmental tax, stamp duty, registration fee, custody and nominee charges as may be required in the purchase or sale of the Units under the Fund.

Cash Rebates and Soft Commissions

Neither the Manager, delegate and sub-delegates of the Manager nor any of its connected persons may retain cash or other rebates from a broker or dealer in consideration of directing transactions to them.

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

Taxation

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

Hong Kong

The Fund/ Sub-Funds

1. Profits Tax

As the Fund/ Sub-Funds have been authorised, as a collective investment scheme under Section 104 of the Securities and Futures Ordinance, profits of the Fund/ Sub-Funds are exempt from Hong Kong Profits Tax under Section 26A(1A)(a)(i) of the Inland Revenue Ordinance.

2. Stamp duty

Hong Kong Stamp Duty is ordinarily payable, inter alia, on the sale or purchase of Hong Kong stock. "Hong Kong stock" is defined in the Stamp Duty Ordinance ("SDO") as "stock" (as further defined in the SDO) the transfer of which is required to be registered in Hong Kong.

No Hong Kong Stamp Duty is payable by the Fund/ Sub-Funds on an issue of Units, as well as on redemption of Units where the redemption is effected by extinguishing the Units.

The Unitholders

1. Profits Tax

Unitholders should not be subject to Hong Kong Profits Tax in respect of income distributions of the Fund/Sub-Funds or in respect of any capital gains arising on a sale, redemption or other disposal of Units in accordance with the practice of the Inland Revenue Department (the "IRD") (as at the date of this Explanatory Memorandum), except that Hong Kong Profits Tax (which is currently charged at the rate of 16.5% for corporations, and 15% for individuals or unincorporated business) may arise on any gains or profits sourced in Hong Kong made on the sale, redemption or other disposal of the Units where such transactions form part of a trade, profession or business carried on by a Unitholder in Hong Kong and such Units are not capital assets to the Unitholder. Unitholders should seek advice from their own professional advisers as to their particular tax position.

There is no withholding tax on dividends and interest in Hong Kong.

2. Stamp duty

No Hong Kong Stamp Duty is payable by a Unitholder in relation to an issue of Units or on the redemption of Units where the sale or transfer of the Units is effected by extinguishing the Units.

Other types of sales or purchases or transfers of the Units by the Unitholders should be liable to Hong Kong Stamp Duty at 0.1% (borne by each of the buyer and seller) on the higher of the consideration amount or market value.

China

By investing in China shares (including but not limited to China A-Shares and China B-Shares), onshore and offshore RMB denominated debt securities issued by PRC tax resident enterprises, (“China Securities”), a Sub-Fund may be subject to taxes imposed by the PRC.

Income (including interest income and capital gains) derived from the Sub-Fund’s investments in debt securities issued by non-PRC tax resident issuers outside China should not be subject to PRC taxes.

1. Corporate Income Tax (“CIT”)

If the Fund or a Sub-Fund is considered as a PRC tax resident enterprise, it will be subject to PRC CIT at 25% on its worldwide taxable income; if the Fund or Sub-Fund is considered as a non-PRC tax resident enterprise with an establishment or place of business (“PE”) in China, the profits and gains attributable to that PE would be subject to PRC CIT at 25%.

It is the intention of the Manager to manage and operate the affairs of the Manager, the Fund and each Sub-Fund such that they should not be treated as tax resident enterprises of the PRC or non-PRC tax resident enterprises with PE in China for PRC CIT purposes, although this cannot be guaranteed. As such, it is expected that the Fund or Sub-Fund would only be subject to CIT at a rate of 10% on a withholding basis (“WIT”) in China to the extent the Fund or Sub-Fund directly derives PRC sourced income in respect of its investments in China Securities.

(a) *Dividends and Interest*

Unless a specific exemption or reduction is available under current PRC tax laws and regulations or relevant tax treaties, non-PRC tax resident enterprises without PE in China are subject to PRC WIT, generally at a rate of 10%, to the extent it directly derives PRC sourced passive income (such as dividend income or interest income) arising from investment in China Securities. In that respect, interests, dividends and profit distributions from PRC tax resident enterprises received by the Sub-Fund is generally subject to PRC WIT at a rate of 10%, unless such WIT is subject to reduction or exemption in accordance with the laws and regulations or applicable tax treaty.

In respect of interest, under the PRC CIT Law and regulations, interest derived from government bonds issued by the in-charge Finance Bureau of the State Council and/or local government bonds approved by the State Council is exempt from PRC income tax. In addition, Caishui [2018] No.108 (“Notice 108”) deals with the PRC taxation rules in relation to foreign investors investing into PRC onshore bond market. Under Notice 108, CIT is temporarily exempted on bond interest income arising in the period from 7 November 2018 to 6 November 2021 derived by foreign investors without any taxable presence in the PRC.

Further, under the Arrangement between the PRC and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (the “PRC-HK Arrangement”), the PRC WIT charged on interest received by Hong Kong resident holders of debt instruments issued by PRC tax resident enterprises will be 7% of the gross amount of the interest, if the Hong Kong tax resident holders are the beneficial owners of the interest under the PRC-HK Arrangement and other relevant conditions are satisfied, subject to the agreement of the PRC tax authorities. In practice, due to the practical difficulties in demonstrating that an investment fund is the beneficial owner of the interest received, such investment fund is generally not entitled to the reduced PRC WIT rate of 7%. As such, the prevailing rate of 10% should be applicable to the Sub-Fund.

In respect of dividends, pursuant to the PRC-HK Arrangement, the PRC WIT charged on dividends received by Hong Kong tax resident holders of shares issued by PRC tax resident enterprises will be 5% of the gross amount of the dividends, if the Hong Kong tax resident holders are the beneficial owners of the dividends, directly hold at least 25% of the equity of the company paying the dividends and meet other relevant treaty conditions. Due to the investment restriction, the relevant Sub-Fund will not hold more than 10% of any ordinary shares issued by any single issuer. In this connection, dividends derived from China A-Shares will not benefit from the reduced PRC WIT rate of 5% and the prevailing PRC WIT tax rate of 10% is applicable to the relevant Sub-Fund.

The Manager will make a WIT provision of 10% for the account of the relevant Sub-Fund on dividends and interest if the WIT is not withheld at source.

(b) *Capital gains*

For a foreign enterprise that is not a PRC tax resident enterprise and has no PE in China, a 10% PRC WIT would be imposed on the China-sourced capital gains derived by it, unless exempt or reduced under the laws and regulations or relevant tax treaty entered into by China.

i) Trading of A-Shares via Stock Connect

Caishui [2014] No.81 (“Notice 81”) deals with the PRC taxation rules in relation to Shanghai-Hong Kong Stock Connect. Under Notice 81, CIT, business tax (replaced by value-added tax), and individual income tax are temporarily exempted on gains realized by Hong Kong market investors (including the relevant Sub-Fund) on the trading of A shares through Shanghai-Hong Kong Stock Connect. In addition, dividends will be subject to 10% PRC WIT and the company distributing the dividend has the withholding obligation.

Caishui [2016] No.127 (“Notice 127”) deals with the PRC taxation rules in relation to Shenzhen-Hong Kong Stock Connect. Under Notice 127, CIT, value-added tax and individual income tax are temporarily exempted on gains realised by Hong Kong market investors (including the relevant Sub-Fund) on the trading of A shares through Shenzhen-Hong Kong Stock Connect. In addition, dividends are subject to 10% PRC WIT and the company distributing the dividend has the withholding obligation. At the time when Shenzhen-Hong Kong Stock Connect was launched, business tax had already been fully replaced by value added tax.

ii) Trading of PRC B-shares

Under current PRC tax laws and regulations, there are no specific rules or regulations governing the taxation of a gain on disposal of B-shares. Hence, the tax treatment for investment in B-Shares is governed by the general tax provisions of the CIT Law. Under such general tax provisions, the Sub-Fund could be technically subject to 10% PRC WIT on the PRC sourced capital gains, unless exempt or reduced under relevant double tax treaties.

However, for B-Shares invested by the Sub-Fund directly, there may be practical difficulty for the PRC tax authorities to impose and collect PRC WIT on such capital gains. The 10% PRC WIT has not been strictly enforced by local tax bureau on capital gains realised by non-PRC tax resident enterprises from the trading of B-shares with sales and purchase effected through stock exchanges.

iii) Trading of onshore and offshore RMB denominated debt securities issued by PRC tax resident enterprise

Under current PRC tax law, there are no specific rules or regulations governing the taxation of gain on disposal of debt securities issued by PRC tax resident enterprises. Under the general tax provision, the Sub-Fund would potentially be subject to 10% PRC WIT on the PRC-sourced capital gains, unless exempt or reduced under relevant double tax treaties.

Based on the verbal interpretation of the State Tax Administration and the local PRC tax authorities, capital gains realised by foreign investors from investment in PRC debt securities issued by PRC tax resident enterprises should not be treated as PRC sourced income and thus should not be subject to PRC WIT. There are no specific written tax regulations issued by the PRC tax authorities to confirm that gains on disposal of PRC debt securities are non-PRC sourced and hence not subject to PRC WIT. However, in practice, the PRC tax authorities have not actively enforced the collection of PRC WIT in respect of gains derived by non-PRC tax resident enterprises from the trading of debt securities.

iv) Tax Provision

It should be noted that the existing tax laws, regulations and practices may be revised or amended in the future, with the possibility that such changes will be applied with retrospective effect. In order to meet the potential tax liability for capital gains, the Manager reserves the right to provide for PRC WIT on such gains or income and withhold the tax for the account of the Sub-Fund. However, having consulted a professional and independent tax adviser, pursuant to Notice No. 81 and the aforementioned practical enforcement of tax collection, the Manager has determined not to make PRC WIT provision for gross realised or unrealised capital gains derived by the Sub-Fund from trading of China Securities.

If the Sub-Fund is subject to tax in respect of which the Manager has not made any provision, investors should note that the net asset value of the Sub-Fund may be reduced, as the Sub-Fund will ultimately have to bear the full amount of tax liabilities. In this case, the additional tax liabilities will only impact Units in issue at the relevant time, and the then existing Unitholders and subsequent Unitholders will be disadvantaged as such Unitholders will bear, through the Sub-Fund, a disproportionately higher amount of tax liabilities as compared to that borne by persons who have already redeemed their Units in the Sub-Fund. On the other hand, if the actual tax liabilities are lower than the tax provision made (if any), Unitholders who have already redeemed their Units before the actual tax liabilities are determined will not be entitled or have any right to claim any part of such overprovision and as such may be disadvantaged.

2. Value Added Tax (“VAT”)

(a) *Interest*

Caishui [2016] No.36 (“Notice 36”) deals with the PRC taxation rules on VAT. Under Notice 36, interest on government bonds is exempt.

Notice 36 does not specifically exempt VAT on interest earned by non-financial institutions. However, Notice 108 temporarily exempts VAT on bond interest income arising in the period from 7 November 2018 to 6 November 2021 derived by foreign investors without any taxable presence in the PRC. In the event VAT exemption on bond interest derived by foreign investors under Notice 108 would not be extended by 6 November 2021, interest on corporate bonds in theory should be subject to 6% VAT.

(b) *Dividends*

Dividend income or profit distributions on equity investments derived from China are not included in the taxable scope of VAT.

(c) *Capital gains*

Notice 36 stipulates that gains derived by taxpayers from the trading of marketable securities would be subject to VAT at 6%. It also stipulates that VAT is temporarily exempt on capital gains derived by Hong Kong market investors (including the Sub-Fund) on the trading of A-Shares through Shanghai-Hong Kong Stock Connect.

For marketable securities other than those trading through a Qualified Foreign Institutional Investors or Stock Connect, Notice 36 provides that VAT at 6% should be levied on the difference between the selling and buying prices of those marketable securities. However, capital gains derived from trading of offshore marketable securities (e.g. China H-shares) in general are regarded as not subject to VAT as the purchase and disposal are often concluded and completed outside China.

Where VAT is applicable, there are also other surtaxes (which include Urban Construction and Maintenance Tax, Education Surcharge and Local Education Surcharge) that would amount to as high as a sum of surtaxes of 12% of 6% VAT payable (or an additional 0.72%).

3. Stamp duty

Stamp duty under PRC law generally applies to the execution and receipt of all taxable documents listed in the PRC's Provisional Rules on Stamp Duty. Stamp duty is levied on the execution or receipt in China of certain documents, including contracts for the sale of China A-Shares and China B-Shares traded on the PRC stock exchanges, at the rate of 0.1%. In the case of contracts for sale of China A-Shares and China B-Shares, such stamp duty is currently imposed on the seller but not on the purchaser.

4. General

It is possible that the current tax laws, regulations and practice in the PRC will change, including the possibility of taxes being applied retrospectively, and that such changes may result in higher taxation on PRC investments than currently contemplated.

Various tax reform policies have been implemented by the PRC government in recent years, and existing tax laws and regulations may be revised or amended in the future. There is a possibility that the current tax laws, regulations and practice in China will be changed with retrospective effect in the future and any such change may have an adverse effect on the asset value of the relevant Sub-Fund. Moreover, there is no assurance that tax incentives currently offered to foreign companies, if any, will not be abolished and the existing tax laws and regulations will not be revised or amended in the future. Any changes in tax policies may reduce the after-tax profits of the companies in China which a Sub-Fund invests in, thereby reducing the income from, and/or value of the Units. For further details relating to the associated risks, please refer to the risk factor headed "PRC tax risk with respect to capital gains" under the "Risk Factors" section.

Unitholders should seek independent professional advice on their positions with regard to the investment in any Sub-Fund.

General

Investors should consult their professional financial advisers on the consequences to them of acquiring, holding, realising, transferring or selling Units under the relevant laws of the jurisdictions to which they are subject, including the tax consequences and any exchange control requirements. These consequences, including the availability of, and the value of, tax relief to investors will vary with the law and practice of the investors' country of citizenship, residence, domicile or incorporation and their personal circumstances.

General information

Accounts and Financial Reports

The Fund's year end is 31 December in each year commencing 31 December 2003. Audited annual reports are made available to Unitholders by the Trustee within four months of the end of each financial year. Commencing 2004, the Trustee also provides half-yearly unaudited interim reports up to the last Dealing Day in June in each year to Unitholders within two months of the end of the period which they cover. The annual reports must be prepared in compliance with internationally recognized accounting standards and the interim reports must apply the same accounting policies and method of computation as are applied in the annual reports of the Fund. Such reports will be published in English and Chinese and contain a statement of the value of the net assets of each Sub-Fund and the investments comprising its portfolio.

Unitholders will be notified of where they can obtain the printed and electronic copies of the latest audited accounts or the half-yearly unaudited interim reports once they are available. Such notices will be sent to Unitholders as soon as practicable and in any event within four months of the end of each financial year as in the case of audited annual reports and within two months after 30 June in each year as in the case of half-yearly unaudited interim reports. Once issued, such reports will be available in softcopy from

the website www.principal.com.hk¹ (investors should note that this website does not form part of the Explanatory Memorandum) and in hardcopy for inspection free of charge at anytime during normal business hours on any day (excluding Saturdays, Sundays and public holidays) at the office of the Manager.

Publication of Net Asset Value per Unit

The net asset value per unit for each Sub-Fund (rounded down to 4 decimal places) will be calculated and published on each Dealing Day free of charge on the website www.principal.com.hk¹. The prices will be expressed exclusive of any initial charge or redemption charge which may be payable on subscription or redemption.

Investment Restrictions

Each of these Sub-Funds is subject to the investment restrictions as set out in “Investment and Borrowing Restrictions” on page 15.

If any of the investment or borrowing restrictions applicable to a Sub-Fund are breached, the Manager shall as a priority objective take all steps necessary within a reasonable period of time to remedy the situation, having due regard to the interests of Unitholders. The Manager is not immediately required to sell applicable investments if any of the investment restrictions are exceeded as a result of changes in the value of a Sub-Fund’s investments, reconstructions or amalgamations, payments out of the assets of the Sub-Fund or redemptions of Units but for so long as such limits are exceeded, the Manager shall not acquire any further investments which would result in such limit being further breached.

Removal and Retirement of the Trustee and the Manager

(a) The Trustee

Subject to the prior approval of the MPF Authority and the SFC, the Trustee may retire voluntarily by giving not less than 90 days written notice to the Unitholders if adequate arrangements have been made for a new trustee (approved by the MPF Authority and the SFC) to assume the responsibility for administration of the Fund and for the Trustee’s interest in the Fund to be transferred to the new trustee.

(b) The Manager

Subject to the prior approval of the SFC, the Trustee may remove the Manager by giving three months’ prior written notice to the Manager if:

- (i) for good and sufficient reason, the Trustee states in writing that a change of the Manager is desirable in the interest of the Unitholders; or
- (ii) the Unitholders representing at least 50% in value of the Units outstanding delivered to the Trustee a written request to dismiss the Manager.

The Manager is also subject to removal forthwith upon written notice from the Trustee if the Manager commences liquidation or has gone into receivership or has entered into any scheme of arrangement or compromise with its creditors.

Furthermore, if the authorisation of the Manager to act as investment manager of the Fund is withdrawn by the SFC, the Manager’s appointment under the Fund shall be terminated as at the date on which the SFC’s withdrawal becomes effective.

In the event that the Manager is removed, the Trustee will appoint a new manager which is approved by the MPF Authority and the SFC.

Apart from the above, the Manager may also retire voluntarily in favour of another qualified company approved by the MPF Authority and the SFC.

Termination of the Fund

The Fund shall continue for a period of 80 years from the date of the Trust Deed or until it is terminated in one of the ways set out below.

1. Subject to the prior approval of the MPF Authority and the SFC, the Trustee may terminate the Fund if:
 - (a) the Manager goes into liquidation or if a receiver is appointed over any of the Manager’s assets and not discharged within 60 days; or
 - (b) in the opinion of the Trustee, the Manager is incapable of performing its duties properly or has done anything which brings the Fund into disrepute or is harmful to the interests of the Unitholders;

¹The website has not been reviewed by the SFC.

- (c) the Fund ceases to be authorised or otherwise officially approved pursuant to the Securities and Futures Ordinance or the MPFS Ordinance of Hong Kong or any law is passed which renders it illegal or in the opinion of the Trustee impracticable or inadvisable to continue the Fund; or
 - (d) the Manager ceases to manage the Fund and within a period of 30 days thereafter no other qualified corporation has been appointed by the Trustee as a successor manager.
2. Subject to the prior approval of the MPF Authority and the SFC, the Manager may terminate the Fund if:
- (a) at any time one year after the establishment of the Fund the net asset value of the Fund falls below an amount which is equivalent to HK\$500,000,000; or
 - (b) the Fund ceases to be authorised or otherwise officially approved pursuant to the Securities and Futures Ordinance and the MPFS Ordinance of Hong Kong or if any law is passed which renders it illegal or in the opinion of the Manager impracticable or inadvisable to continue the Fund.

Notice will be given to Unitholders if the Fund is terminated under the above circumstances. Such notice will be submitted to the SFC for prior approval and will contain the reasons for the termination, alternatives available to Unitholders and the expected costs involved.

Termination of a Sub-Fund

Subject to the prior approval of the MPF Authority and the SFC,

1. the Manager may terminate any Sub-Fund if:
- (a) at any time one year after the establishment of the Sub-Fund the aggregate net asset value of Units of the relevant classes outstanding in respect of that Sub-Fund falls below HK\$100,000,000;
 - (b) the Sub-Fund ceases to be authorised or otherwise officially approved pursuant to the Securities and Futures Ordinance or the MPFS Ordinance of Hong Kong or if any law is passed which renders it illegal or in the opinion of the Manager impracticable or inadvisable to continue the Sub-Fund, and
2. Unitholders of the relevant class or classes may at any time terminate a Sub-Fund by extraordinary resolution.

Notice of termination will be given to Unitholders of the relevant Sub-Fund. Such notice will be submitted to the SFC for prior approval.

Upon the Fund or any Sub-Fund being terminated, any unclaimed proceeds or other cash held by the Trustee may at the expiration of twelve months from the date upon which the same were payable be paid into court subject to the right of the Trustee to deduct therefrom any expenses it may incur in making such payment.

Trust Deed

The Fund was established under Hong Kong law by a trust deed dated 7 May 2003 made between the Manager and the Trustee, as amended by the deeds of variation dated 22 November 2007, 2 January 2015 and 27 July 2017, and supplemented by the Deed of Termination Relating to the Principal Long Term Accumulation Fund under Principal Life Style Fund dated 4 July 2008, the Deed of Termination Relating to the Principal U.S. Dollar Savings Fund Under Principal Life Style Fund dated 7 December 2012 and the Amended and Restated Trust Deed dated 1 January 2020. All holders of Units are entitled to the benefit of, are bound by and are deemed to have notice of the provisions of the Trust Deed.

The Trust Deed contains provisions for the indemnification of the Trustee and the Manager and their relief from liability in certain circumstances. Unitholders and intending applicants are advised to consult the terms of the Trust Deed. Although every effort have been taken to ensure the accuracy of the facts and the matters set out in this Explanatory Memorandum, in case of any conflict the terms of the Trust Deed shall prevail.

Modification of Trust Deed

Subject to the prior approval of the MPF Authority and the SFC (where necessary), the Trustee and the Manager may agree to modify the Trust Deed by supplemental deed. However, in respect of all classes of Units of the Fund available to retail investors (including without limitation to Retail Class Units, R2 Class Units and R6 Class Units), unless the Trustee certifies in writing that in its opinion such modification (i) is not materially prejudicial to the interests of Unitholders, does not operate to release to any material extent the Trustee, the Manager or any other person from any responsibility to the Unitholders and (with the exception of the costs of preparing and executing the relevant supplemental deed) does not increase the costs and charges payable out of the assets of the Fund or (ii) is necessary or desirable in order to comply with any fiscal, statutory, regulatory or official requirement or (iii) is made to correct a manifest error, no modifications involving any material changes shall be made without the sanction of an extraordinary resolution of the Unitholders affected or the approval of the SFC.

Meetings of Unitholders

The Trust Deed provides for meetings of Unitholders to be convened by the Trustee or the Manager upon at least 21 days' notice. Notices of meetings of Unitholders will be posted to Unitholders.

Proxies may be appointed. The quorum at Unitholders' meetings is Unitholders present in person or by proxy holding not less than 10% (or, in relation to a resolution proposed as an extraordinary resolution, 25%) of the Units in issue. If a quorum is not present, the meeting will be adjourned for not less than 15 days. Separate notice of any adjourned meeting will be given, and at an adjourned meeting Unitholders whatever their number or the number of Units held by them will form a quorum.

An extraordinary resolution is required under the Trust Deed for certain purposes and is a resolution proposed as such and passed by a majority of 75% of the total number of votes cast.

The Trust Deed contains provisions for the holding of separate meetings of Unitholders holding different classes of Units where only the interests of Unitholders of a particular class are affected.

The Trust Deed provides that at any meeting of Unitholders, on a show of hands, every Unitholder who (being an individual) is present in person or (being a partnership or corporation) is present by an authorised representative shall have one vote and, on a poll, every Unitholder who is present as aforesaid or by proxy shall have one vote for every Unit of which he is the holder.

Transfer of Units

Subject as provided below, Units may be transferred by an instrument in writing in a form approved by the Trustee, signed by (or, in the case of a body corporate, signed on behalf of or sealed by) the transferor and the transferee. The transferor will be deemed to remain the holder of the Units transferred until the name of the transferee is entered in the Register of Unitholders in respect of such Units.

Each instrument of transfer must relate to a single class of Units only. No Units may be transferred if, as a result, either the transferor or the transferee would hold Units having a value less than the minimum holding of the relevant class.

Conflicts of Interest

The Manager, sub-delegates of the Manager, the Trustee and the custodian may from time to time act as trustee, administrator, transfer agent, manager, custodian, representative or otherwise as may be required from time to time in relation to, or be otherwise involved in or with, other funds and clients which have similar investment objectives to those of the Sub-Funds. It is, therefore, possible that any of them may, in the course of business, have potential conflicts of interest with the Fund. The Manager will take all reasonable steps to identify, prevent, manage and monitor any actual or potential conflicts of interest including conducting all transactions in good faith at arm's length and in the best interests of the Fund on normal commercial terms. If conflicts arise, each will at all times, have regard in such event to its obligations to the Fund and will endeavour to ensure that such conflicts are resolved fairly and taking into account investors' interests. In any event, the Manager shall ensure that all investment opportunities will be fairly allocated.

Each will, at all times, have regard in such event to its obligations to the Fund and will endeavour to ensure that such conflicts are resolved fairly and taking into account investors' interests.

The Manager may also act as the investment manager of other funds whose investment objectives, investment approach and investment restrictions are similar to those of the Sub-Funds. The Manager or any of its connected persons may invest in, directly or indirectly, or manage or advise other investment funds or accounts which invest in assets which may also be purchased or sold by the Sub-Funds. Neither the Manager nor its connected persons is under any obligation to offer investment opportunities of which any of them become aware to the Fund or to account to the Fund in respect of (or share with the Fund or to inform the Fund of) any such transactions or any benefit received by any of them from any such transaction, but will allocate such opportunities on an equitable basis between the Fund and other clients.

Where the Manager invests the Sub-Funds in shares or units of a collective investment scheme managed by the Manager or any of its connected persons, the Manager must waive any preliminary or initial charge which it is entitled to charge for its own account in relation to the acquisition of shares or units and there must be no increase in the overall total of annual management fees (or other costs and charges payable to the Manager or any connected person of the Manager) borne by the relevant Sub-Funds.

The Manager reserves the right for itself and its connected persons to co-invest on its own or for other funds and/or other clients with any Sub-Fund. Further, the Manager and its connected persons may hold and deal in Units of any Sub-Fund or in investments held by any Sub-Fund either for their own account or for the account of their clients. Trade allocations are performed, where appropriate, to ensure best execution and fair treatment of all clients (including the relevant Sub-Fund) at all times.

The Manager may enter into trades for the account of the Fund with the accounts of other clients of the Manager or its affiliates ("cross trades"). Such cross trades will only be undertaken where the sale and purchase decisions are in the best interests of both clients and fall within the investment objective, restrictions and policies of both clients, the cross trades are executed on arm's length terms at current market value, the reasons for such cross trades are documented prior to execution, and such activities are

disclosed to both clients. Cross trades may also be entered into between house accounts (i.e. account owned by the Manager or any of its connected persons over which it can exercise control and influence) and client accounts in accordance with applicable laws and regulations.

Subject to the restrictions and requirements applicable from time to time, the Manager, sub-delegates of the Manager or any of their respective connected persons may deal with any Sub-Fund as principal provided that dealings are effected on best available terms negotiated and executed on an arm's length basis and in the best interests of the Unitholders. Any transactions between a Sub-Fund and the Manager, sub-delegates of the Manager or any of their connected persons as principal may only be made with the prior written consent of the Trustee. All such transactions shall be disclosed in the Fund's annual report.

In effecting transactions for the account of any Sub-Fund with brokers or dealers connected to the Manager, subdelegates of the Manager or their connected persons, the Manager shall ensure that it complies with the following requirements:

- (a) such transactions should be on arm's length terms;
- (b) the Manager must use due care in the selection of brokers or dealers and ensure that they are suitably qualified in the circumstances;
- (c) transaction execution must be consistent with applicable best execution standards;
- (d) the fee or commission paid to any such broker or dealer in respect of a transaction must not be greater than that which is payable at the prevailing market rate for a transaction of that size and nature;
- (e) the Manager must monitor such transactions to ensure compliance with its obligations; and
- (f) the nature of such transactions and the total commissions and other quantifiable benefits received by such broker or dealer shall be disclosed in the annual report of the Fund.

The services of the Trustee provided to the Fund are not deemed to be exclusive and the Trustee shall be free to render similar services to others so long as its services hereunder are not impaired thereby and to retain for its own use and benefit all appropriate fees and benefits. The Trustee shall not be deemed to be affected with notice of or to be under any duty to disclose to the Fund any fact or information which comes to the notice of the Trustee in the course of the Trustee rendering similar services to other parties or in the course of its business in any other capacity, otherwise than in the course of carrying out its duties under the Trust Deed or as required by any applicable laws and regulations for the time being in force.

If cash forming part of a Fund's assets is deposited with the Trustee, the custodian, the Manager, the sub-delegates of the Manager or with any connected persons (being an institution licensed to accept deposits), such cash deposit shall be maintained in a manner that is in the best interests of the Unitholders, having regard to the prevailing rate for deposits of similar type, size and term, negotiated at arm's length in accordance with ordinary and normal course of business.

Risk Management Process

To identify, monitor, measure and manage the risks associated with the Fund taking into account the nature, scale and complexity of the business of the Manager and the investment objective and strategy of each Sub-Fund. The Manager has formalized an internal control policy and employed a comprehensive risk management process in line with the above criteria and considerations. Such policy/process includes investment compliance monitoring, on-going monitoring of (i) the Fund's investment and asset allocation; (ii) the performance of the Fund; and (iii) the qualification of the service providers appointed.

Liquidity Risk Management

The Manager has established a liquidity risk management policy with the aim of enabling it to identify, monitor, manage and mitigate the liquidity risk of the Sub-Funds and seeking to ensure that the liquidity profile of the investments of the Sub-Funds will facilitate compliance with the Sub-Funds' obligation to meet investors' redemption requests and the fair treatment of investors.

The Manager's liquidity risk management policy takes account of the investment strategy, the dealing frequency, the expected redemption patterns and the liquidity profile of the underlying assets of the Sub-Funds and the overall liquidity of the market, as well as the ability to enforce redemption limitations of the Sub-Funds.

Before investments are made in the underlying securities of a Sub-Fund, the Manager will consider the size of the issue or the issuer of the relevant underlying securities and the proportion of the intended investment. The liquidity risk management policy involves monitoring the profile of investments held by the Sub-Funds and analysing the liquidity in the underlying securities on an on-going basis with the aim to ensure that such investments are appropriate to the redemption policy as stated under the section titled "Redemption of Units", and will facilitate compliance with the Sub-Funds' obligation to meet redemption requests. The liquidity risk management policy also provides for periodic stress testing on the liquidity risk of the Sub-Funds.

The Manager's liquidity risk management function is independent from the investment portfolio management function and is responsible for monitoring of the Sub-Funds' liquidity risk in accordance with the Manager's liquidity risk management policy. The liquidity risk management function is overseen by senior management who are responsible for liquidity risk management.

In performing its liquidity risk management function, the Manager may utilise one or more liquidity risk management tools on an on-going basis, including, but not limited to:-

- the Manager may, with the approval of the Trustee, limit the number of Units of any Sub-Fund redeemed on any Dealing Day (whether by sale to the Manager or by cancellation by the Trustee) to 10% of the total net asset value of such Sub-Fund (subject to the restrictions set out in the section titled “Restrictions on Redemption”); and
- the Manager may, in certain circumstances with the consent of the Unitholders concerned, effect a redemption payment to the redeeming Unitholders in specie or in kind rather than in cash (for further details, see the section titled “Payment of Redemption Proceeds by Distribution in Specie”).

Documents Available for Inspection

Copies of the Trust Deed, investment management contract, investment delegation agreement and the latest annual and interim reports (if any) are available for inspection free of charge at anytime during normal business hours on any day (excluding Saturdays, Sundays and public holidays) at the office of the Manager at 30/F, Millennium City 6, 392 Kwun Tong Road, Kwun Tong, Kowloon. Copies of the Trust Deed can be purchased from the Manager on payment of a reasonable fee.

Enquiries and Complaints

If you have any enquires or complaints, please contact our customer service hotline at (852) 2117 8383 or email to Investors-Asia@principal.com or send to the office of the Manager. All the enquiries and complaints would be handled as soon as reasonably practicable.

Anti-Money Laundering Regulations

As part of the Trustee’s and the Manager’s responsibility for the prevention of money laundering, they may require a detailed verification of an investor’s identity and the source of the payment of application monies. Depending on the circumstances of each application, a detailed verification might not be required where:

- (i) the applicant makes the payment from an account held in the applicant’s name at a recognized financial institution; or
- (ii) the application is made through a recognised intermediary.

These exceptions will only apply if the financial institution or intermediary referred to above is within a country recognised as having sufficient anti-money laundering regulations.

The Trustee and the Manager reserve the right to request such information as is necessary to verify the identity of an applicant and the source of the payment. In the event of delay or failure by the applicant to produce any information required for verification purposes, the Trustee and/or the Manager may refuse to accept the application and the application monies relating thereto.

Foreign Account Tax Compliance Act (“FATCA”)

The Hiring Incentives to Restore Employment Act (the “Hire Act”) was signed into US law in March 2010. It includes provisions generally known as Foreign Account Tax Compliance Act (“FATCA”). FATCA imposes a 30% withholding tax on certain types of income from US sources, including dividends and interest from securities of US issuers with effect from 1 July 2014. The objective of FATCA is to impose obligations on non-US financial institutions to identify and appropriately report on the assets held by US taxpayers outside the United States as a safeguard against US tax evasion.

On 13 November 2014, Hong Kong entered into an intergovernmental agreement (“IGA”) with the United States to implement FATCA for all Hong Kong based financial institutions adopting “Model 2” IGA arrangements. Hong Kong financial institutions, including the Fund and the Sub-Funds are required to report to the US tax authorities (the “IRS”) the details of assets held by US taxpayers with those financial institutions and payments made to nonparticipating foreign financial institutions (“NPFFI”) during 2015 and 2016. Pursuant to the IGA, the Fund is classified as a deemed-compliant foreign financial institution as it has elected to be sponsored by the Manager, Principal Asset Management Company (Asia) Limited. The Manager has registered with the IRS as a sponsoring entity and been assigned the Global Intermediary Identification Number (“GIIN”) E2QA10.00000.SP.344 in that capacity and has agreed to carry out the FATCA responsibilities of the Fund, including registration of the Sub-Funds with the IRS which has assigned a GIIN to each Sub-Fund. Under the terms of the IGA, the Fund as a deemed-compliant foreign financial institution is not subject to any US withholding taxes, unless it is considered to be in substantial non-compliance with the relevant requirements under FATCA or the IGA.

The Manager, on behalf of the Fund, is required to obtain mandatory evidence from each new Unitholder as to whether it is a US person or a NPFFI within the meaning of IGA. The Manager is also required to identify any existing Unitholder as a US person or a NPFFI within the meaning of the IGA based on the records the Fund holds.

Further, the Manager on behalf of the Fund is required to disclose such information as may be required under the IGA and FATCA to the IRS in relation to any Unitholder who is considered to have become a US person or a NPFFI within the meaning of the IGA.

Investors should consult their own tax advisers regarding any potential obligations and implications that the IGA or FATCA, may impose on them and the Fund.

In addition, as the Fund does not pay US source income to Unitholders, the Fund is not required to withhold any US taxes from distribution or redemption payments unless Hong Kong agrees before any prescribed deadline with the IRS that such withholding should be applied.

Investors are advised to refer to the sections titled “Risks associated with Foreign Account Tax Compliance Act” for risks associated with the Foreign Account Tax Compliance Act.

Automatic exchange of financial information

Financial institutions in Hong Kong and many other jurisdictions are required to identify account holders who are reportable foreign tax residents under the laws, regulations and international agreements for the implementation of automatic exchange of financial account information (“**AEOI**”), and report the information of account holders and controlling persons of certain entity account holders (including but not limited to their names, addresses, dates of birth, places of birth/incorporation, jurisdiction(s) of tax residence, tax identification number(s) in the relevant jurisdiction(s) and account information (including but not limited to their account balance, income, and payments to the account holders) (collectively, the “**Reportable Information**”) to the local tax authority where the financial institutions operate. The local tax authority, in respect of a reportable foreign tax resident, will provide the Reportable Information of the reportable foreign tax resident to the tax authority of the country of tax residence of the reportable foreign tax resident on a regular, annual basis.

The Fund is a Hong Kong financial institution for AEOI purposes. As required under AEOI of Hong Kong, the Fund will use for the purposes of AEOI the Reportable Information of any individual or entity, in the capacity as a Unitholder, that is considered under AEOI to be an “account holder” or “controlling person” of an “account holder” (where applicable). The Reportable Information may be transmitted to the IRD for transfer to the tax authority of another jurisdiction.

The Fund may, to the extent not prohibited by applicable law including AEOI, engage, employ or authorise any individual or entity (including but not limited to third-party service providers, the Trustee’s or the Manager’s affiliates, subsidiaries, associated entities, and any of their branches and offices) (each, for purposes of this section, an “**authorised person**”) to assist the Fund with the fulfilment of its obligations under AEOI, and to act on the Fund’s behalf in relation to its obligations under AEOI. The Fund and its authorised persons may share with each other any information of any “account holder” and “controlling person” of an “account holder” (where applicable) of the Fund.

The Fund and/or any of its authorised person(s) may require any “account holder” under AEOI to provide a valid self-certification form and such other information (including the Reportable Information and any documentary evidence) which the Fund and/or any of its authorised person(s) may require from time to time for the implementation of AEOI (collectively, the “**Required Information**”). In addition, where the “account holder” is an entity, the Fund and/or its authorised person(s) may require the Required Information of its “controlling person(s)”.

Where required by AEOI and to the extent not prohibited by applicable law, the Fund will not accept any applicant or make any payment to any “account holder” (in the capacity of a Unitholder) before receiving the Required Information. “Account holders” and “controlling persons” must update the Fund and/or any of its authorised person(s) about any changes in the information they have previously provided to the Fund and/or any of its authorised person(s). If the Fund and/or any of its authorised person(s) do not receive the Required Information in respect of an “account holder” or a “controlling person”, the Fund and/or any of its authorised person(s) may be required to report such person based on the information they have.

Unitholders and any other “account holders” and “controlling persons” should consult their own tax advisers regarding the possible implications of AEOI on their participation and holding interests in the Fund and the information that may be required to be provided and disclosed to the Fund and/or any of its authorised person(s), and where applicable, to the IRD and other tax authorities. The application of the AEOI rules and the information that may be required to be reported and disclosed are subject to change. Please see the IRD website (https://www.ird.gov.hk/eng/tax/dta_aei.htm) for more information about AEOI in Hong Kong. Any discussion of tax considerations herein is not intended or written to be tax advice to any person and is not intended or written to be used, and cannot be used, by any person for the purpose of avoiding any domestic or foreign tax penalties that may be imposed on such person.



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