



# Principal Life Style Fund

Explanatory Memorandum

Principal®

信安

**IMPORTANT NOTES:**

1. 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.
2. Generally, emerging market investments carry higher risks due to risks associated with higher volatility, inadequate liquidity and additional regulatory risks.
3. 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.
4. Some of the Sub-Funds may have concentrated exposures in one or a select few markets making them riskier than diversified funds.
5. The Sub-Funds may invest in financial futures or options for hedging purposes which may involve additional risks including market, counterparty or default risks, exposing the Sub-Funds to losses.

7 August 2017

**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 accepts full responsibility for the accuracy of the information contained in this Notice and confirm, having made all reasonable enquiries, that to the best of their 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 Unitholders,

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

Thank you for your continued support of the Fund. We would like to inform you that the following changes have been made to the Fund:

**A. Change of address**

With effect from 16 October 2017, the address of the Manager, the Trustee, the Custodian and the Registrar of the Fund will be changed to 30/F Millennium City 6, 392 Kwun Tong Road, Kwun Tong, Kowloon respectively.

With effect from 1 December 2017, the address of Principal Global Investors (Hong Kong) Limited will be changed to Unit 1001-1002 Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

**B. Removal of restriction to allow the Principal China Equity Fund and the Principal Hong Kong Equity Fund to invest in China A-Shares and China B-Shares and to clarify the “Investment Objectives and Policies” of Principal Hong Kong Equity Fund and Principal China Equity Fund**

With effect from 2 January 2018, Principal Hong Kong Equity Fund and Principal China Equity Fund can invest in eligible China A-Shares and China B-Shares listed on the Shanghai or Shenzhen stock exchanges, each of which was previously prohibited from investing in China A-Shares and more than 10% of its net asset value in China B-Shares. As the Shanghai and Shenzhen stock exchanges are currently not recognized by the Mandatory Provident Fund Schemes Authority as ‘approved stock exchanges’ set out 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 respective net asset value of Principal Hong Kong Equity Fund and Principal China Equity Fund.

The reason for the proposed removal of restriction is to allow investment into eligible China A-Shares up to a maximum of 10% of the respective net asset values which does not materially change the respective statements of investment policy and objectives (“SIPO”) of the Principal Hong Kong Equity Fund and Principal China Equity Fund.

The removal of restriction can enhance the Manager’s ability to make investments in China A-Shares via the stock connect schemes, which were first introduced in 2014. Although the proposed removal of restriction is intended to enhance the overall returns for investors, there are associated risks and therefore the disclosure under “Risk Factors” in the Explanatory Memorandum will be enhanced with effect from 2 January 2018 to include “Risks associated with investment in China A-Shares through stock connect programmes” to reflect news risks relating to investment in China A-Shares.

Unitholders should be aware that there are various risks associated with investing in China A-Shares and China B-Shares which are unique when compared to risks associated with other types of securities in other markets. Apart from “Risks associated with investment in China A-Shares through stock connect programmes”, unitholders are also advised to refer to the sections titled “Risks associated with investments/exposure to RMB currency and/or Mainland China” and “Custodial risk” for risks involved in investing in China A-Shares and China B-Shares.

Effective from 2 January 2018, the disclosure under the section “Investment Objectives and Policies” of Principal Hong Kong Equity Fund and Principal China Equity Fund in the Explanatory Memorandum and their respective KFSs will also be updated to clarify the extent and type of their primary and ancillary investments to reflect the current practice.

Save as disclosed above, there is no change in the manner that such Sub-Funds will be managed nor to their fee levels.

### **C. Publication of Suspension and Publication of Net Asset Value**

#### ***Place and timing of publication of suspension of calculation of Net Asset Value per Unit***

With effect from 17 August 2017, notification in relation to suspension of calculation of net asset value per unit of a Sub-Fund will be published on the website [www.principal.com.hk](http://www.principal.com.hk)<sup>1</sup> instead of publication in the newspapers in Hong Kong. Such publication will be made immediately (instead of as soon as may be practicable) after any such declaration and at least once a month during the period of such suspension. The Manager may also 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.

#### ***Publication of Net Asset Value per Unit and rounding practice***

With effect from 17 August 2017, the net asset value per unit for each Sub-Fund will be published on each dealing day on the website [www.principal.com.hk](http://www.principal.com.hk)<sup>1</sup> instead of publication in the newspapers in Hong Kong. The Trust Deed has also been revised to reflect this change.

In accordance with the Fifth Addendum to the Explanatory Memorandum and our letter to Unitholders, both dated 23 November 2012, the current rounding practice adopted by the Manager in determining the issue and redemption prices for each Sub-Fund is to round down (not up) to 4 decimal places. As such, the net asset value per unit for each Sub-Fund published on the website [www.principal.com.hk](http://www.principal.com.hk)<sup>1</sup> will be rounded down to 4 decimal places (instead of rounded up to 4 decimal places) to reflect such practice. For the avoidance of doubt, there is no change to the dealing or pricing arrangements of the Fund.

### **D. Directors of the Manager**

With effect from 30 June 2017, subsequent to the resignations of Mr. Norman R. J. Sorensen Valdez, Mr. Sinn Pak Ming, Ringo and Mr. Yuen Sze Fun as Directors, the composition of the Board of Directors of the Manager now comprises Ms. Nora Mary Everett and Mr. Binay Chandgothia.

<sup>1</sup> The website has not been reviewed by the SFC.

## **E. Others**

The following changes shall take effect from 27 July 2017:

### ***Payment procedures for accepting subscriptions moneys***

With effect from 27 July 2017, the payment procedures for accepting subscription moneys have been updated. Subscription moneys will be able to be made in either Hong Kong dollars (“**HKD**”) or U.S. dollars (“**USD**”) (instead of HKD only) without any cost of currency conversion on the part of investors at the time of application.

Where subscription moneys are made in currencies other than HKD and USD, the payment procedures remain the same that such subscription moneys will be converted into HKD at the prevailing exchange rates. The cost of currency conversion will be borne by the applicant. Conversion of currencies may involve some delay.

### ***Pension Class Units***

With effect from 27 July 2017, the definition of Pension Class Units of the Fund has been amended as follows (additions are underlined and deletions are shown):

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 (~~but excluding any registered scheme, approved pooled investment fund or occupational retirement scheme which is not managed by Principal Asset Management Company (Asia) Limited at the time of establishment of such registered scheme, approved pooled investment fund or occupational retirement scheme (as the case may be))~~ or other investment managers as may be determined by the Trustee or the Manager at their discretion.

The reason for this change is to remove the restriction on availability of Pension Class Units to certain schemes which are not managed by Principal Asset Management Company (Asia) Limited at the time of their establishment and to give the Trustee or the Manager the discretion to make Pension Class Units available to schemes that are managed by other investment managers. The Trust Deed has also been revised to reflect this change.

### ***Foreign Account Tax Compliance Act (“FATCA”) and PRC taxation***

With effect from 27 July 2017, the Explanatory Memorandum has been amended to include disclosures in relation to FATCA and PRC taxation to provide the latest regulatory information.

### ***Liquidity Risk Management***

With effect from 27 July 2017, the Explanatory Memorandum has been amended to include disclosure in relation to the Fund’s liquidity risk management policy to comply with the latest regulatory requirements.

### ***Conflicts of interest, fee rebates and appointment of sub-custodians***

With effect from 27 July 2017, the Explanatory Memorandum has been amended to enhance the existing disclosure in relation to (i) conflicts of interest, (ii) fee rebates and (iii) the basis upon which sub-custodians are appointed, to reflect the latest regulatory requirements. The Trust Deed has also been amended to reflect (iii). Such amendments are for clarification purposes only and do not consist of any change in current practice.

*Enhancement of risk disclosure generally*

With effect from 27 July 2017, risk disclosures under the “RISK FACTORS” section in the Explanatory Memorandum has been enhanced generally.

The costs associated with the changes herein will be borne by the Manager.

It is confirmed that none of the amendments made herein will have any adverse impact on Unitholders or investors of the Fund.

\* \* \*

The above changes are more fully discussed in the attached Ninth Addendum to the Explanatory Memorandum of the Fund (the “**Ninth Addendum**”). The Ninth Addendum should be read in conjunction with and forms part of the Explanatory Memorandum and the Product Key Facts Statement of each of the Sub-Funds. Please read the Ninth Addendum carefully.

The Trust Deed has been amended by a supplemental deed of variation dated 27 July 2017 to reflect various updates to comply with the relevant requirements in the Code on Unit Trusts and Mutual Funds (the “**UT Code**”) and to reflect various amendments to the Explanatory Memorandum. Clause 1.01 has been amended to align the definitions of “Pension Class Unit” and “Connected Person” with those in the Explanatory Memorandum and the UT Code respectively. Clauses 2.02, 9.06, 14.19, 15.01 and 24.01 have been amended to reflect the relevant requirements of 4.5(a)(i), (ii) and (iii), 6.15(e), Appendix D11 and Appendix D4(c) and Appendix D12(d) of the UT Code. Clause 5.13 has been amended to allow the Fund to publish the net asset value of the Sub-Funds in an appropriate manner as may be permitted by the UT Code. Clause 15.02 has been amended to reflect the requirements of Section 5(7) of Annex 1: Minimum Disclosure Requirements of the Guide on Practices and Procedures for Application for Authorisation of Unit Trusts and Mutual Funds. A copy of the latest Trust Deed will be available for inspection at our office at Unit 1001-3, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong during normal office hours.

Terms not defined in this Notice shall have the same meanings as in the Explanatory Memorandum of the Principal Life Style Fund unless otherwise specified herein.

Should you have any questions about these changes or would like to obtain a copy of the updated Explanatory Memorandum and the Product Key Facts Statements of the Sub-Funds of the Fund, please contact our customer hotline at (852) 2117 8383 or visit our website at [www.principal.com.hk](http://www.principal.com.hk)<sup>1</sup>.

**Principal Asset Management Company (Asia) Limited**

<sup>1</sup> The website has not been reviewed by the SFC.

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

This Ninth Addendum forms part of the Explanatory Memorandum of the Fund dated 6 April 2011 (the “**Explanatory Memorandum**”) and should be read in conjunction with the Explanatory Memorandum, the First Addendum dated 20 June 2011, the Second Addendum dated 15 August 2011, the Third Addendum dated 12 October 2011, the Fourth Addendum dated 18 January 2012, the Fifth Addendum dated 23 November 2012, the Sixth Addendum dated 12 December 2012, the Seventh Addendum dated 26 May 2014 and the Eighth Addendum dated 2 January 2015. All capitalized terms used in this Ninth 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 Ninth 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.

---

**Changes to Explanatory Memorandum**

Save for the sections entitled “Issue of Units – settlement bank account name”, “Removal of restriction to allow the Principal China Equity Fund and the Principal Hong Kong Equity Fund to invest in China A-Shares and China B-Shares”, “Change of address”, “Directors”, “Calculation of Net Asset Value and Issue and Redemption Prices” and “General Information – Publication of Net Asset Value per Unit”, other changes to the Explanatory Memorandum shall take effect from 27 July 2017.

<b>Change of address</b>
--------------------------

With effect from 16 October 2017, the sub-sections titled “Manager” and “Trustee, Custodian and Registrar” under the section “PARTIES” on page 3 of the Explanatory Memorandum shall be deleted in its entirety and be replaced by the followings:

**“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”



With effect from 1 December 2017, the address of Principal Global Investors (Hong Kong) Limited under the sub-section titled “Sub-Delegate of the Manager” under the section “PARTIES” on page 3 of the Explanatory Memorandum shall be deleted in its entirety and be replaced by the following:

“Unit 1001-1002 Central Plaza  
18 Harbour Road  
Wanchai  
Hong Kong”

**Removal of restriction to allow the Principal China Equity Fund and the Principal Hong Kong Equity Fund to invest in China A-Shares and China B-Shares**

With effect from 2 January 2018, the paragraph immediately below “Geographic Allocation\*” of the Principal Hong Kong Equity Fund on page 8 of the Explanatory Memorandum and the last sentence of the first paragraph of the Principal China Equity Fund on page 8 of the Explanatory Memorandum shall be deleted in their entirety and replaced by the following:

“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.”

**Directors**

With effect from 30 June 2017, the sub-section titled “Directors of the Manager” under the section “PARTIES” on page 3 of the Explanatory Memorandum shall be deleted in its entirety and be replaced by the following:

**“Directors of the Manager**

Nora Mary Everett  
Binay Chandgothia”

**Definitions**

With effect from 27 July 2017, sub-paragraphs (c) to (d) of the definition of “Connected Person” under the section titled “DEFINITIONS” on page 4 of the Explanatory Memorandum shall be deleted in its entirety and be replaced by the following:

- “(c) any company 20% or more of whose ordinary share capital is beneficially owned, directly or indirectly, by that company or any company 20% or more of the total voting rights of which can be exercised, directly or indirectly, by that company;
- (d) any member of the group of which that company forms part; or
- (e) any director or officers of that company or any of its connected persons as defined in (a), (b), (c) or (d) above”



**Investment objectives and policies**

(A) With effect from 2 January 2018, the section headed “INVESTMENT OBJECTIVES AND POLICIES” shall be amended in the following manner:

(a) The second and fourth sentences of the first paragraph under “Principal Hong Kong Equity Fund” on page 8 of the Explanatory Memorandum shall be deleted in their entirety and replaced by the following:

“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 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.”

(b) The second and third sentences of the first paragraph under “Principal China Equity Fund” on page 8 of the Explanatory Memorandum shall be deleted in their entirety and replaced by the following:

“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.”

(B) With effect from 27 July 2017, a new footnote “^” shall be added to the sentence which describes the risk profile of each of the relevant Sub-Funds in the section “INVESTMENT OBJECTIVES AND POLICIES”. The following explanation for the footnote “^” shall be added immediately before the footnote “\*” on page 10:

“^ The classifications of risk/return profile are determined by the Manager, Principal Asset Management Company (Asia) Limited, 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.”

### **Investment and borrowing restrictions**

With effect from 27 July 2017, the sub-section titled “Investment Restrictions” under the section titled “INVESTMENT AND BORROWING RESTRICTIONS” on page 11 of the Explanatory Memorandum shall be amended by the addition of the following wording at the end of the existing wording of sub-paragraph (ix) (regarding investing in collective investment schemes):

“provided that the Manager may not obtain a rebate on any fees or charges levied by such collective investment scheme or its manager”

### **Delegation of custodial function**

With effect from 27 July 2017, the second sentence in the third paragraph in the sub-section “Trustee and Registrar” under the section titled “MANAGEMENT AND ADMINISTRATION” on page 13 of the Explanatory Memorandum shall be deleted in its entirety and replaced by the following:

“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.”

### **Risk Factors**

- (A) With effect from 27 July 2017, the sentence immediately above point (a) of the “RISK FACTORS” section on page 10 of the Explanatory Memorandum shall be deleted in its entirety and replaced by “The performance of the Sub-Funds will be affected by a number of key risk factors, including the following:”.

To enhance the risk disclosures in the Explanatory Memorandum regarding the general “RISK FACTORS” section, the “RISK FACTORS” section on pages 10-11 of the Explanatory Memorandum shall be deleted in its entirety and replaced with 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 (“NAV”) 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.

#### **Risks 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 NAV 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 NAV 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 NAV 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.

#### **Risks 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 NAV 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 NAV 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 NAV 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 NAV 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 NAV 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 NAV 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 NAV 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 NAV 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.



## Other risks

- (a) 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 NAV of such Sub-Fund and investors may as a result suffer loss.
- (b) 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.
- (c) 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) and Unitholders may suffer material loss in certain Sub-Funds where US withholding tax is imposed on the gross proceeds from the sale of US securities. 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.
- (d) 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.”



- (B) With effect from 2 January 2018, the following risk factors associated with investments in China A-Shares through stock connect programmes shall be inserted immediately below the sub-section titled “Risks associated with investments/exposure to RMB currency and/ or Mainland China” under the “RISK FACTORS” section:

**“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 front-end 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 NAV of the Sub-Funds and investors may as a result suffer loss.”

**Issue of Units**

- (A) With effect from 27 July 2017, the paragraph numbered “(iii)” under the sub-section titled “Classes of Units” under the section “ISSUE OF UNITS” on page 13 of the Explanatory Memorandum shall be deleted in its entirety and be replaced by the following:

“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.”

- (B) With effect from 27 July 2017, the last paragraph of the sub-section titled “Payment Procedure” under the section “ISSUE OF UNITS” on page 15 of the Explanatory Memorandum shall be deleted in its entirety and be replaced by the following:

“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.”

#### **Issue of Units – settlement bank account name**

With effect from 15 November 2016, the name of the settlement bank account for the Fund was changed from “Principal Trust Company (Asia) Ltd – Unit Trust Subscription Account” to “Principal Trust Company (Asia) Limited – Principal Unit Trust Client Account Subscription”. Apart from the above, other bank account details including bank account numbers remain unchanged.

Hence, the first paragraph of the sub-section titled “Payment Procedure” under the section “ISSUE OF UNITS” on page 15 of the Explanatory Memorandum shall be deleted in its entirety and be replaced by the following:

Payment for Units and any applicable initial charge may be made by cheque, payable to Principal Trust Company (Asia) Limited – Principal Unit Trust Client Account Subscription 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

#### **Calculation of Net Asset Value and Issue and Redemption Prices**

With effect from 17 August 2017, the penultimate paragraph under the sub-section titled “Suspension of Calculation of Net Asset Value” under the section titled “CALCULATION OF NET ASSET VALUE AND ISSUE AND REDEMPTION PRICES” on page 19 of the Explanatory Memorandum shall be deleted in its entirety and be replaced by the following:

“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.hk](http://www.principal.com.hk)<sup>1</sup> 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.”

#### **General Information**

(A) With effect from 17 August 2017, the sub-section titled “Publication of Net Asset Value per Unit” under the section titled “GENERAL INFORMATION” on page 23 of the Explanatory Memorandum shall be deleted in its entirety and be replaced by the following:

##### **“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 published on each Dealing Day on the website [www.principal.com.hk](http://www.principal.com.hk)<sup>1</sup>. The prices will be expressed exclusive of any initial charge or redemption charge which may be payable on subscription or redemption.”

<sup>1</sup> The website has not been reviewed by the SFC.

- (B) With effect from 27 July 2017, the first paragraph of the sub-section titled “Trust Deed” under the section titled “GENERAL INFORMATION” on page 24 of the Explanatory Memorandum shall be deleted in its entirety and be replaced by the following:

**“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 and the Deed of Termination Relating to the Principal U.S. Dollar Savings Fund Under Principal Life Style Fund dated 7 December 2012. 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.”

- (C) With effect from 27 July 2017, the following shall be inserted as a new sub-section “Foreign Account Tax Compliance Act” after the sub-section titled “Anti-Money Laundering Regulations” under the section titled “GENERAL INFORMATION” on page 25 of the Explanatory Memorandum:

**“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 and gross proceeds of sale and other dispositions of such securities occurring after 31 December 2018. 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 non-participating foreign financial institutions (“NPFPI”) 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 NPFPI within the meaning of IGA. The Manager is also required to identify any existing Unitholder as a US person or a NPFPI 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 NPFPI 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.

- (D) With effect from 27 July 2017, the following paragraph shall be added immediately before the last paragraph of the section titled “TAXATION” on page 22 of the Explanatory Memorandum:

### **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.

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, and individual income tax are temporarily exempted on gains realised by foreign 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 and individual income tax are temporarily exempted on gains realised by foreign 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 Administration of Taxation 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 is no specific written tax regulations issued by the PRC tax authorities to confirm that gains on disposal of PRC debt securities is 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*

The tax regulations on Comprehensive Roll-out of the Business Tax to Value Added Tax Transformation Pilot Program (“B2V Pilot Program”) came into effect on 1 May 2016 which exempt interest on government bonds from VAT. The B2V Pilot Program does not specifically exempt VAT on interest earned by non-financial institutions. Hence, interest on corporate bonds in theory should be subject to 6% VAT. However, as the B2V Pilot Program is new, the Manager would observe the actual enforcement of the VAT collection in practice.

(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*

The tax regulations on B2V Pilot Program stipulate that gains derived by taxpayers from the trading of marketable securities would be subject to VAT at 6%.

They also stipulate that VAT will be temporarily exempt on capital gains derived by Hong Kong and overseas investors (including the Sub-Fund) on the trading of A-Shares through Stock Connect.



For marketable securities other than those trading through a Qualified Foreign Institutional Investors or Stock Connect, the tax regulations on B2V Pilot Program provide that VAT at 6% to 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.

- (E) With effect from 27 July 2017, the following paragraphs shall be inserted as new sub-sections titled respectively “Conflicts of Interest” and “Liquidity Risk Management” immediately after the sub-section titled “Transfer of Units” under the section titled “GENERAL INFORMATION” on page 25 of the Explanatory Memorandum:

**“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.

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.

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 on an arm’s length basis. 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, sub-delegates 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 person of these companies (being an institution licensed to accept deposits), such institution shall allow interest thereon in accordance with normal banking practice for deposits of that term at a rate not lower than the prevailing rate for deposits of a similar size and duration, in the same currency and with institutions of a similar standing negotiated at arm's length.

### **Liquidity Risk Management**

With effect from 27 July 2017, 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 latest available 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”).”

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

Principal Asset Management Company (Asia) Limited

7 August 2017

15 November 2016

**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 financial advice.**

**Principal Asset Management Company (Asia) Limited accepts full responsibility for the accuracy of the information contained in this Notice and confirm, having made all reasonable enquiries, that to the best of their 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 continual support of the Fund. We would like to inform you of the following change in respect of the Fund:

With immediate effect, our settlement bank account name for the Fund will be changed from “Principal Trust Company (Asia) Ltd – Unit Trust Subscription Account” to “**Principal Trust Company (Asia) Limited - Principal Unit Trust Client Account Subscription**”.

Apart from the above, other bank account details including bank account numbers remain unchanged.

\*

\*

\*

The above change will be incorporated in the forthcoming addendum to the Explanatory Memorandum of the Fund (“**Forthcoming Addendum**”). The Forthcoming Addendum should be read in conjunction with and will form part of the Explanatory Memorandum. Please read the Forthcoming Addendum carefully as and when this is delivered to you.

Should you have any questions about the change, please contact our customer service hotline at (852) 2117 8383 or visit our website at [www.principal.com.hk](http://www.principal.com.hk).

Yours faithfully,

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



Binay Chandgothia  
Director

2 January 2015

**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 accepts full responsibility for the accuracy of the information contained in this Notice and confirm, having made all reasonable enquiries, that to the best of their 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 continual support of the Fund. We would like to inform you of the following changes in respect of the Fund:

**(1) Establishment of two new classes of Units**

We, as the Manager of the Fund, are pleased to inform you that, with effect from 2 January 2015, two new classes of Units, namely, R2 and R6 classes (collectively the "**New Classes**") shall be established for all current sub-funds of the Fund (collectively the "**Sub-Funds**") as set out below:

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; and

The New Classes are unit classes denominated in Hong Kong dollars. In relation to R2 Class Units, these Units do not intend to make any distributions and any income earned by these Units will be reinvested into them. In relation to R6 class of Units, these Units aim to distribute dividends on a quarterly basis (i.e. for March, June, September and December each year).

The R2 Class Units of the Principal Hong Kong Equity Fund, Principal China Equity Fund and Principal Hong Kong Bond Fund will be initially offered for subscription by investors during the initial period from 9:00 a.m. (Hong Kong time) on 2 January 2015 to 5:00 p.m. (Hong Kong time) on 31 December 2015 (unless otherwise extended or shortened by the Manager). Dealing of the Units will commence on the Dealing Day immediately following the closure of the initial period.

The R6 Class Units of the Principal Hong Kong Equity Fund, Principal China Equity Fund and Principal Hong Kong Bond Fund will be initially offered for subscription by investors during the initial period from 9:00 a.m. (Hong Kong time) on 2 January 2015 to 5:00 p.m. (Hong Kong time) on 2 January 2015 (unless otherwise extended or shortened by the Manager). Dealing of the Units will commence on the Dealing Day immediately following the closure of the initial period.

The Units of the New Classes in respect of other Sub-Funds will be offered to investors for subscription at such other time and price as may be determined by the Trustee and the Manager.

**(2) Initial Issue of I6 Class Units (Principal Asian Equity Fund, Principal International Equity Fund and Principal European Equity Fund)**

The I6 Class Units of the Principal Asian Equity Fund, Principal International Equity Fund and Principal European Equity Fund will be initially offered for subscription by investors during the initial period from 9:00 a.m. (Hong Kong time) on 2 January 2015 to 5:00 p.m. (Hong Kong time) on 31 December 2015 (unless otherwise extended or shortened by the Manager). Dealing of the Units will commence on the Dealing Day immediately following the closure of the initial period.

\* \* \*

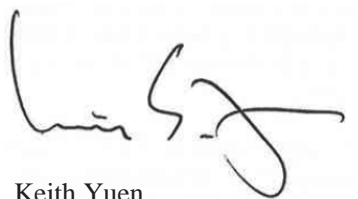
The above changes are more fully discussed in the attached Eighth Addendum to the Explanatory Memorandum of the Fund (the "**Eighth Addendum**"). The Eighth Addendum should be read in conjunction with and forms part of the Explanatory Memorandum and the Product Key Facts Statement of each of the Sub-Fund. Please read the Eighth Addendum carefully.

The Trust Deed has been amended by the Second Deed of Variation dated 2 January 2015 to reflect the following changes: the establishment of the I6 Class Units, R2 Class Units and R6 Class Units, the amendment to the Interim Accounting Date and Interim Distribution Date to include the last dealing day of both March and September, an amendment to the relevant clause pertaining to the liabilities of the Trustee and Manager as required by a regulatory update, and the removal of Schedule 3. A copy of the latest Trust Deed will be available for inspection at our office at Unit 1001-3, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong during normal office hours.

Terms not defined in this Notice shall have the same meanings as in the Explanatory Memorandum of the Principal Life Style Fund unless otherwise specified herein.

Should you have any questions about these changes or would like to obtain a copy of the updated Explanatory Memorandum and the Product Key Facts Statements of the Sub-Funds of the Fund, please contact our customer hotline at (852) 2117 8383 or visit our website at [www.principal.com.hk](http://www.principal.com.hk).

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



Keith Yuen  
Director



**PRINCIPAL LIFE STYLE FUND 信安豐裕人生基金 (THE "FUND")**  
**EIGHTH ADDENDUM**

This Eighth Addendum forms part of the Explanatory Memorandum of the Fund dated 6 April 2011 (the "**Explanatory Memorandum**") and should be read in conjunction with the Explanatory Memorandum, the First Addendum thereto dated 20 June 2011, the Second Addendum thereto dated 15 August 2011, the Third Addendum thereto dated 12 October 2011, the Fourth Addendum thereto dated 18 January 2012, the Fifth Addendum thereto dated 23 November 2012, the Sixth Addendum thereto dated 12 December 2012 and the Seventh Addendum thereto dated 26 May 2014. All capitalized terms used in this Eighth 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 Eighth Addendum and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other material facts the omission of which would make any statement misleading as at the date of issuance.

---

The following changes to the Explanatory Memorandum shall take effect from 2 January 2015:

- 1) The last paragraph under the section titled "DEFINITIONS" on page 5 of the Explanatory Memorandum shall be deleted in its entirety and be replaced by the following:

"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."

- 2) The sub-sections titled "Classes of Units", "Initial Issue of Units", "Subsequent Issues of Units" and "Minimum Subscription and Subsequent Holding" under the section titled "ISSUE OF UNITS" on page 13 to 14 of the Explanatory Memorandum shall be deleted in their entirety and be replaced by the following:

**"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 (but excluding any registered scheme, approved pooled investment fund or occupational retirement scheme which is not managed by Principal Asset Management Company (Asia) Limited at the time of establishment of such registered scheme, approved pooled investment fund or occupational retirement scheme (as the case may be)).
- (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 were initially offered to investors during the initial offer period from 9:00 a.m. (Hong Kong time) on 2 July 2003 to 5:00 p.m. (Hong Kong time) on 2 July 2003 (excluding Principal Hong Kong Equity Fund, Principal China Equity Fund, Principal European Equity Fund and Principal Pension Bond Fund):

- (i) Pension Class Units of each of the Sub-Funds; and
- (ii) Retail Class Units of each of the Sub-Funds

The Manager decided to offer the Investment Class Units of the Principal Asian Equity Fund, Principal International Bond Fund and Principal U.S. Equity Fund (the "Sub-Funds") to investors. The Investment Class Units of each of the above mentioned Sub-Funds were initially offered for subscription by investors during the initial period from 9:00 a.m. (Hong Kong time) on 8 August 2005 to 5:00 p.m. (Hong Kong time) on 30 December 2005. All Units are denominated in Hong Kong dollars.

The Investment Class Units of the Principal Hong Kong Equity Fund were initially offered for subscription by investors during the initial period from 9:00 a.m. (Hong Kong time) on 11 April 2005 to 5:00 p.m. (Hong Kong time) on 30 November 2005. The Pension Class Units and Retail Class Units were initially offered for subscription by investors during the initial period from 9:00 a.m. (Hong Kong time) on 11 July 2005 to 5:00 p.m. (Hong Kong time) on 30 August 2005.

The Pension Class Units and Retail Class Units of the Principal China Equity Fund were initially offered for subscription by investors during the initial period from 9:00 a.m. (Hong Kong time) on 12 March 2007 to 5:00 p.m. (Hong Kong time) on 28 June 2007. The Investment Class Units of the Principal China Equity Fund were initially offered for subscription by investors during the initial period from 9:00 a.m. (Hong Kong time) on 2 June 2008 to 5:00 p.m. (Hong Kong time) on 30 June 2008. All Units are denominated in Hong Kong dollars.

The Investment Class Units and Pension Class Units of the Principal European Equity Fund were initially offered for subscription by investors during the initial period from 9:00 a.m. (Hong Kong time) on 1 August 2008 to 5:00 p.m. (Hong Kong time) on 1 August 2008. The Retail Class Units will be offered for subscription at such time as may be determined by the Trustee and the Manager. All Units are denominated in Hong Kong dollars.

The Pension Class Units of the Principal Pension Bond Fund were initially offered for subscription by investors during the initial period from 9:00 a.m. (Hong Kong time) on 4 December 2008 to 5:00 p.m. (Hong Kong time) on 4 December 2008. The Investment Class Units and Retail Class Units will be offered for subscription at such time as may be determined by the Trustee and the Manager. 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 the Principal Hong Kong Equity Fund will be initially offered for subscription by investors during the initial period from 9:00 a.m. (Hong Kong time) on 26 May 2014 to 5:00 p.m. (Hong Kong time) on 27 May 2014 (unless otherwise extended or shortened by the Manager). All Units are denominated in Hong Kong dollars.

I6 Class Units of the Principal International Equity Fund, Principal European Equity Fund and Principal Asian Equity Fund will be initially offered for subscription by investors during the initial period from 9:00 a.m. (Hong Kong time) on 2 January 2015 to 5:00 p.m. (Hong Kong time) on 31 December 2015 (unless otherwise extended or shortened by the Manager). 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, Principal China Equity Fund and Principal Hong Kong Bond Fund will be initially offered for subscription by investors during the initial period from 9:00 a.m. (Hong Kong time) on 2 January 2015 to 5:00 p.m. (Hong Kong time) on 31 December 2015 (unless otherwise extended or shortened by the Manager). 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 will be initially offered for subscription by investors during the initial period from 9:00 a.m. (Hong Kong time) on 2 January 2015 to 5:00 p.m. (Hong Kong time) on 2 January 2015 (unless otherwise extended or shortened by the Manager). 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 18 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:

	<b>Initial subscription (inclusive of initial charges)</b>	<b>Each subsequent subscription (inclusive of initial charges)</b>	<b>Minimum balance</b>
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."

- 3) The fourth paragraph under the section titled "SWITCHING BETWEEN SUB-FUNDS" on page 17 of the Explanatory Memorandum shall be deleted in its entirety and be replaced by the following:

"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."

- 4) The third paragraph of the sub-section titled "Calculation of Issue and Redemption Prices" under the section titled "CALCULATION OF NET ASSET VALUE AND ISSUE AND REDEMPTION PRICES" on page 18 of the Explanatory Memorandum shall be deleted in its entirety and be replaced by the following:

"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.

- 5) The section titled "DISTRIBUTION POLICY" on page 19 of the Explanatory Memorandum shall be deleted in its entirety and be replaced by the following:

#### **"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).



### 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.hk](http://www.principal.com.hk). The website has not been reviewed by the SFC."

- 6) The last paragraph of the section titled "REGULAR SAVINGS PLAN" on page 19 of the Explanatory Memorandum shall be deleted in its entirety and be replaced by the following:

"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."

- 7) The sub-sections titled "Management Fee", "Initial Charge, Redemption Charge and Switching Fee" and "Trustee Fee" under the section titled "CHARGES AND EXPENSES" on page 20 to 21 of the Explanatory Memorandum shall be deleted in their entirety and be replaced by the following:

### "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 shorter 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:

	<b>Trustee Fee (p.a.) for the different class of Units</b>					
	<b>Investment Class Units</b>	<b>I6 Class Units</b>	<b>Pension Class Units</b>	<b>R2 Class Units</b>	<b>Retail Class Units</b>	<b>R6 Class Units</b>
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."

- 8) A new sub-section titled "Distribution Fee" shall be added under the existing sub-section titled "Trustee Fee" of the section titled "CHARGES AND EXPENSES" on page 21 of the Explanatory Memorandum:

**"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."

- 9) The following two new paragraphs shall be inserted above the last paragraph in the sub-section titled "Other Charges and Expenses" under the section "CHARGES AND EXPENSES" on page 21 of the Explanatory Memorandum:

"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."

- 10) The sub-section titled "Publication of Net Asset Value per Unit" under the section titled "GENERAL INFORMATION" on page 23 of the Explanatory Memorandum shall be deleted in its entirety and be replaced by the following:

**"Publication of Net Asset Value per Unit**

The net asset value per unit for the Retail Class Units, R2 Class Units and R6 Class Units of the Sub-Funds (rounded up to 4 decimal places) will be published on each Dealing Day in South China Morning Post, Hong Kong Economic Times and/or any other newspapers which the Manager may from time to time determine and notify the Unitholders. The prices will be expressed exclusive of any initial charge or redemption charge which may be payable on subscription or redemption."

- 11) The sub-section titled "Trust Deed" under the section titled "GENERAL INFORMATION" on page 24 of the Explanatory Memorandum shall be deleted in its entirety and be replaced by the following:

**"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 and 2 January 2015, and supplemented by the Deed of Termination Relating to the Principal Long Term Accumulation Fund under Principal Life Style Fund dated 4 July 2008 and the Deed of Termination Relating to the Principal U.S. Dollar Savings Fund Under Principal Life Style Fund dated 7 December 2012. 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."

- 12) The sub-section titled "Modification of Trust Deed" under the section titled "GENERAL INFORMATION" on page 24 of the Explanatory Memorandum shall be deleted in its entirety and be replaced by the following:

**"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 or official requirement or (iii) is made to correct a manifest error, no modifications shall be made without the sanction of an extraordinary resolution of the Unitholders affected or the approval of the SFC."

- 13) The last paragraph of the section titled "PARTIES" on page 3 of the Explanatory Memorandum shall be deleted in its entirety, removing Principal Global Investors (Asia) Limited as distributor of the Fund.
- 14) On page 10, under the section "RISK FACTORS", the following new point (k) "Dividends paid effectively out of capital" shall be added immediately after point (j) "Liquidity Risk" and "Termination Risk" shall be renumbered to point "(l)":
  - "(k) Dividends paid effectively out of capital – In respect of R6 Class Units, the Manager may at its discretion pay dividend out of gross income while paying all or part of the fees and expenses attributable to the R6 Class Units out of the capital of such Units, resulting in an increase in distributable income for the payment of dividends by the R6 Class Units and therefore, the Sub-Fund may effectively pay dividend out of capital. This amounts to a return or withdrawal of part of a Unitholder's original investment in the R6 Class Units 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 may result in an immediate reduction of its net asset value per Unit."

Principal Asset Management Company (Asia) Limited

2 January 2015

26 May 2014

**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 accepts full responsibility for the accuracy of the information contained in this Notice and confirm, having made all reasonable enquiries, that to the best of their 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 - Establishment of a new class of Units**

Thank you for your continual support of the Principal Life Style Fund (the "**Fund**").

We, as the Manager of the Fund, are pleased to inform you that, with effect from 26 May 2014, a new class of Units, namely, I6 Class (the "**New Class**"), shall be established for all current sub-funds of the Fund (collectively the "**Sub-Funds**") as set out below:

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; and
10. Principal Hong Kong Bond Fund.

The New Class is a unit class denominated in Hong Kong dollars. The Units of the New Class will not be available to retail investors and will only be offered to selected institutional investors. The Units of the New Class in respect of the Principal Hong Kong Equity Fund will be initially offered for subscription by investors during the initial period from 9:00 a.m. (Hong Kong time) on 26 May 2014 to 5:00 p.m. (Hong Kong time) on 27 May 2014 (unless otherwise extended or shortened by the Manager) and dealing of the Units in the New Class will commence on the Dealing Day immediately following the closure of the initial period. The Units of the New Class in respect of the other Sub-Funds will be offered to investors for subscription at such other time and price as may be determined by the Trustee and the Manager.



\* \* \*


Notwithstanding the above changes, the investment objectives and policies of the Sub-Funds of the Fund will remain the same.

The above changes are more fully disclosed in the attached Seventh Addendum to the Explanatory Memorandum of the Fund (the "**Seventh Addendum**"). The Seventh Addendum should be read in conjunction with and forms part of the Explanatory Memorandum and the Product Key Facts Statement of each of the Sub-Fund. Please read the Seventh Addendum carefully.

Terms not defined in this Notice shall have the same meanings as in the Explanatory Memorandum of the Principal Life Style Fund unless otherwise specified herein.

Should you have any questions about these changes or would like to obtain a copy of the updated Explanatory Memorandum and the Product Key Facts Statements of the Sub-Funds of the Fund, please contact our customer service hotline at (852) 2117 8383 or visit our website at [www.principal.com.hk](http://www.principal.com.hk).

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



Binay Chandgothia  
Director

**PRINCIPAL LIFE STYLE FUND 信安豐裕人生基金**  
**(the "FUND")**  
**Seventh Addendum to the Explanatory Memorandum**

This Seventh Addendum forms part of the Explanatory Memorandum of the Fund dated 6 April 2011 (the "**Explanatory Memorandum**") and should be read in conjunction with the Explanatory Memorandum, the First Addendum dated 20 June 2011 (the "**First Addendum**"), the Second Addendum dated 15 August 2011, the Third Addendum dated 12 October 2011, the Fourth Addendum dated 18 January 2012, the Fifth Addendum dated 23 November 2012 and the Sixth Addendum dated 12 December 2012. All capitalized terms used in this Seventh 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 Seventh Addendum and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other material facts the omission of which would make any statement misleading as at the date of issuance.

---

The following changes to the Explanatory Memorandum shall take effect from 26 May 2014. For ease of reference, the additions and/or amendments to the Explanatory Memorandum are underlined in the following:

- 1) The last paragraph under the section titled "DEFINITIONS" on page 5 of the Explanatory Memorandum shall be deleted in its entirety and be replaced by the following:

"Four classes of Units, namely the Investment Class Units, I6 Class Units, Pension Class Units and Retail 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."

- 2) The sub-section titled "Classes of Units" under the section "ISSUE OF UNITS" on page 13 of the Explanatory Memorandum shall be deleted in its entirety and be replaced by the following:

**"Classes of Units**

Four classes of Units are available in relation to each Sub-Fund of the Fund. The four 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) 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 (but excluding any registered scheme, approved pooled investment fund or occupational retirement scheme which is not managed by Principal Asset Management Company (Asia) Limited at the time of establishment of such registered scheme, approved pooled investment fund or occupational retirement scheme (as the case may be)).

- (iii) Retail Class Units - 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.
- (iv) 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.

Units in each class will be denominated in HK dollars"

- 3) The following paragraph shall be added under the seventh paragraph of the sub-section titled "Initial Issue of Units" under the section "ISSUE OF UNITS" on page 14 of the Explanatory Memorandum:

"I6 Class Units of the Principal Hong Kong Equity Fund will be initially offered for subscription by investors during the initial period from 9:00 a.m. (Hong Kong time) on 26 May 2014 to 5:00 p.m. (Hong Kong time) on 27 May 2014 (unless otherwise extended or shortened by the Manager). All Units are denominated in Hong Kong dollars."

- 4) The ninth paragraph of the sub-section titled "Initial Issue of Units" under the section "ISSUE OF UNITS" on page 14 of the Explanatory Memorandum shall be deleted in its entirety and be replaced by the following:

"Investment Class Units, I6 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."

- 5) The eleventh paragraph of the sub-section titled "Initial Issue of Units" under the section "ISSUE OF UNITS" on page 14 of the Explanatory Memorandum shall be deleted in its entirety and be replaced by the following:

"No initial charge will be levied in respect of the issue of Investment Class Units, I6 Class Units or Pension Class Units of the Sub-Funds."

- 6) The second paragraph of the sub-section titled "Subsequent Issues of Units" under the section "ISSUE OF UNITS" on page 14 of the Explanatory Memorandum shall be deleted in its entirety and be replaced by the following:

"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 18 below). The Manager may levy an initial charge on the issue of the Retail 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."

- 7) (i) The table and (ii) the paragraph immediately below that table under the sub-section titled "Minimum Subscription and Subsequent Holding" under the section "ISSUE OF UNITS" on

page 14 of the Explanatory Memorandum shall be deleted in their entirety and be replaced by the following:

(i) "

	<b>Initial subscription (inclusive of initial charges)</b>	<b>Each subsequent subscription (inclusive of initial charges)</b>	<b>Minimum balance</b>
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

"

(ii) "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."

8) The fourth paragraph under the sub-section titled "Restrictions on Redemption" under the section "REDEMPTION OF UNITS" on page 17 of the Explanatory Memorandum shall be deleted in its entirety and be replaced by the following:

"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."

9) The fourth paragraph under the section titled "SWITCHING BETWEEN SUB-FUNDS" on page 17 of the Explanatory Memorandum shall be deleted in its entirety and be replaced by the following:

"In respect of switching of Units of the Investment Class, I6 Class and Retail 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."

10) The fourth paragraph of the sub-section titled "Calculation of Issue and Redemption Prices" under the section "CALCULATION OF NET ASSET VALUE AND ISSUE AND REDEMPTION PRICES" on page 18 of the Explanatory Memorandum shall be deleted in its entirety and be replaced by the following:

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

- 11) The section titled "DISTRIBUTION POLICY" on page 19 of the Explanatory Memorandum shall be deleted in its entirety and be replaced by the following:

"The Manager currently does not intend to make distributions in respect of the Investment Class Units, I6 Class Units, Pension Class Units and Retail 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 notice as the MPF Authority and the SFC may require)"

- 12) The last paragraph of the section titled "REGULAR SAVINGS PLAN" on page 19 of the Explanatory Memorandum shall be deleted in its entirety and be replaced by the following:

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

- 13) The table in the sub-section titled "Management Fee" under the section "CHARGES AND EXPENSES" on page 20 of the Explanatory Memorandum shall be deleted in its entirety and be replaced by the following:

		Management Fee (p.a.)			
		Investment Class Units	I6 Class Units	Pension Class Units	Retail Class Units
1.	Principal Asian Equity Fund	0.90%	0.80%*	Nil	1.20%
2.	Principal International Bond Fund	0.80%	0.80%*	Nil	1.00%
3.	Principal International Equity Fund	1.00%*	0.80%*	Nil	1.20%
4.	Principal Hong Kong Dollar Savings Fund	0.60%*	0.80%*	Nil	0.25%
5.	Principal U.S. Equity Fund	1.00%	0.80%*	Nil	1.20%
6.	Principal Hong Kong Equity Fund	1.00%	0.80%	Nil	1.20%
7.	Principal China Equity Fund	1.00%	0.80%*	Nil	1.50%
8.	Principal European Equity Fund	1.00%	0.80%*	Nil	1.50%*
9.	Principal Pension Bond Fund	0.80%*	0.80%*	Nil	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%

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

"

- 14) The third paragraph under the table setting out the Management Fee under the section "CHARGES AND EXPENSES" on page 20 of the Explanatory Memorandum shall be deleted in its entirety and be replaced by the following:

"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."

15) (i) The first paragraph and (ii) the second paragraph of the sub-section titled "Initial Charge, Redemption Charge and Switching Fee" under the section "CHARGES AND EXPENSES" on page 20 of the Explanatory Memorandum shall be deleted in their entirety and be replaced by the following:

- (i) " The Manager is entitled to receive an initial charge of up to 5% of the issue price on the issue of Retail Class Units in each Sub-Fund. In the switching of Units of the Investment Class, I6 Class and Retail 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."
- (ii) "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."

16) The table in the sub-section titled "Trustee Fee" under the section "CHARGES AND EXPENSES" on page 21 of the Explanatory Memorandum shall be deleted in its entirety and be replaced by the following:

		<b>Trustee Fee (p.a.)</b>			
		<b>Investment Class Units</b>	<b>I6 Class Units</b>	<b>Pension Class Units</b>	<b>Retail Class Units</b>
1.	Principal Asian Equity Fund	0.20%	0.20%*	Nil	0.20%
2.	Principal International Bond Fund	0.20%	0.20%*	Nil	0.20%
3.	Principal International Equity Fund	0.20%*	0.20%*	Nil	0.20%
4.	Principal Hong Kong Dollar Savings Fund	0.20%*	0.20%*	Nil	0.20%
5.	Principal U.S. Equity Fund	0.20%	0.20%*	Nil	0.20%
6.	Principal Hong Kong Equity Fund	0.20%	0.20%	Nil	0.20%
7.	Principal China Equity Fund	0.20%	0.20%*	Nil	0.20%
8.	Principal European Equity Fund	0.20%	0.20%*	Nil	0.20%*
9.	Principal Pension Bond Fund	0.20%*	0.20%*	Nil	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%

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

"



- 17) (i) The first paragraph and (ii) the second paragraph under the table in the sub-section titled "Trustee Fee" under the section "CHARGES AND EXPENSES" on page 21 of the Explanatory Memorandum shall be deleted in their entirety and be replaced by the following:
- (i) "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."
- (ii) "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, I6 Class Units, Retail Class Units and Investment 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 of any Sub-Fund."
- 18) The following new paragraph shall be inserted as the second last paragraph in the sub-section titled "Other Charges and Expenses" under the section "CHARGES AND EXPENSES" on page 22 of the Explanatory Memorandum:
- "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."
- 19) The second paragraph of the section "Investment and Borrowing Restrictions" on page 2 of the First Addendum which is applicable to the Principal Hong Kong Bond Fund and is supplemental to and should be read in conjunction with the Explanatory Memorandum and all other addenda thereto shall be deleted in its entirety and be replaced by the following:
- "The Manager does not have any intention to enter into any securities lending agreement, repurchase agreement and similar over-the-counter transactions in respect of the Sub-Fund. If the Manager subsequently determines that a securities lending agreement, repurchase agreement or similar over-the-counter transactions shall be entered into in respect of the Sub-Fund, prior written notice will be given to Unitholders."

Principal Asset Management Company (Asia) Limited

26 May 2014

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

This Sixth Addendum forms part of the Explanatory Memorandum of the Fund dated 6 April 2011 (the “**Explanatory Memorandum**”) and should be read in conjunction with the Explanatory Memorandum, the First Addendum dated 20 June 2011, the Second Addendum dated 15 August 2011, the Third Addendum dated 12 October 2011, the Fourth Addendum dated 18 January 2012 and the Fifth Addendum dated 23 November 2012. All capitalized terms used in this Sixth 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 responsibility for the information contained in this Sixth Addendum as being accurate at the date of publication and has taken all reasonable care to ensure that to the best of their knowledge and belief there are no other material facts the omission of which would make any statement of fact or opinion herein misleading.

---

**Principal U.S. Dollar Savings Fund (the “Sub-Fund”) - Withdrawal of authorization, cancellation of the approval status as an Approved Pooled Investment Fund and termination**

As a result of Principal Asset Management Company (Asia) Limited applying to the Securities and Futures Commission of Hong Kong to withdraw the authorization of the Sub-Fund and the Mandatory Provident Fund Schemes Authority for cancellation of the approval status of the Sub-Fund as an Approved Pooled Investment Fund, the Sub-Fund will no longer be available for sale to the public in Hong Kong and be terminated with immediate effect. Accordingly, all references to “Principal U.S. Dollar Savings Fund” in the Explanatory Memorandum shall be deleted and all information regarding the Principal U.S. Dollar Savings Fund as contained in the Explanatory Memorandum has ceased to have effect.

The relevant sections containing reference/information of the Principal U.S. Dollar Savings Fund in the Explanatory Memorandum are set out below:

1.	Point 5, “5. Principal U.S. Dollar Savings Fund”, on the list of Sub-Funds on page 5.
2.	The section headed “(v) Principal U.S. Dollar Savings Fund” on page 7.
3.	The 3 <sup>rd</sup> paragraph from the top of page 14.
4.	The row entitled “5. Principal U.S. Dollar Savings Fund” in the table under the “Management Fee” section on page 20.
5.	The row entitled “5. Principal U.S. Dollar Savings Fund” in the table under the “Trustee Fee” section on page 21.

12 December 2012

23 November 2012

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

---

Dear Unitholders,

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

Thank you for your continual support to the Fund. We would like to inform you of the following changes in respect of the Fund:

**(1) Reduction of Management Fee for Investment Class Units of Principal Asian Equity Fund**

With effect from 1 December 2012, the management fee for Investment Class Units of Principal Asian Equity Fund will be reduced from 1.0% per annum to 0.9% per annum of its net asset value.

**(2) Sub-Delegate of the Manager**

We have updated the Explanatory Memorandum of the Fund to better reflect the current arrangement of the sub-delegate of the manager in respect of the sub-funds of the Fund. The current arrangement is as follows:

- (i) *For Principal Hong Kong Bond Fund, Principal International Bond Fund and Principal European Equity Fund*
  - Principal Global Investors (Europe) Limited
- (ii) *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

**(3) Calculation of Issue Price**

We have updated the Explanatory Memorandum of the Fund to reflect the current practice adopted by the Manager in determining the issue price of a unit of a class on a dealing day. In determining the issue price of a unit of a class on a dealing day, the resulting sum shall be round down to 4 decimal places of the base currency of the relevant sub-fund instead of round up to 4 decimal places of the base currency of the relevant sub-fund.

The above changes are fully set out in the Fifth Addendum, which should form part of the Explanatory Memorandum and be read in conjunction with the Explanatory Memorandum and its other addenda. Unitholders may obtain a copy of the First to Fifth Addenda and the latest Explanatory Memorandum from our website at [www.principal.com.hk](http://www.principal.com.hk) or request for a copy through our customer service hotline at (852) 2117 8383.

If you have any enquiries on the changes made to the Fund, please also contact the above customer service hotline.

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



Ringo Sinn  
Director

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

This Fifth Addendum forms part of the Explanatory Memorandum of the Fund dated 6 April 2011 (the “**Explanatory Memorandum**”) and should be read in conjunction with the Explanatory Memorandum, the First Addendum dated 20 June 2011, the Second Addendum dated 15 August 2011, the Third Addendum dated 12 October 2011 and the Fourth Addendum dated 18 January 2012. All capitalized terms used in this Fifth 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 responsibility for the information contained in this Fifth Addendum as being accurate at the date of publication and has taken all reasonable care to ensure that to the best of their knowledge and belief there are no other material facts the omission of which would make any statement of fact or opinion herein misleading.

**(1) Reduction of Management Fee for Investment Class Units of Principal Asian Equity Fund**

With effect from 1 December 2012, the management fee for Investment Class Units of Principal Asian Equity Fund will be reduced from 1.0% per annum to 0.9% per annum of its net asset value. The “Principal Asian Equity Fund” row in the management fee table sets out in the “Charges and Expenses” section on page 20 shall be updated as follows:

	<b>Management Fee (p.a.)</b>		
	<b>Investment Class Units</b>	<b>Pension Class Units</b>	<b>Retail Class Units</b>
1. Principal Asian Equity Fund	0.90%	Nil	1.20%

**(2) Sub-Delegate of the Manager in respect of Principal Hong Kong Bond Fund**

As disclosed in the First Addendum dated 20 June 2011 under the “Management and Administration” section, the discretionary investment management function in respect of Principal Hong Kong Bond Fund has been sub-delegated from Principal Global Investors, LLC (the delegate of the Manager of this fund) to both Principal Global Investors (Hong Kong) Limited and Principal Global Investors (Europe) Limited since the inception of this fund. For the sake of clarity, the following sections shall be updated to reflect this arrangement:

- (a) The sub-section entitled “Sub-Delegate of the Manager” under the “Parties” section on page 3 shall be deleted in its entirety and replaced by the following:

**“Sub-Delegate 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 1001-3 Central Plaza

18 Harbour Road

Wanchai

Hong Kong”

- (b) The last paragraph of the sub-section entitled “Manager” under the “Management and Administration” section on page 12 shall be deleted in its entirety and replaced by the following:

“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. It manages US\$232.4 billion assets as of 31 December 2010. 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.”

**(3) Calculation of Issue Price**

The last part of the second paragraph starting from point (v) under the “Calculation of Issue and Redemption Prices” section on page 18 shall be deleted in its entirety and replaced by the following to reflect the current practice adopted by the Manager in determining the issue price of a unit of a class on a dealing day:

“(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.”

23 November 2012



18 January 2012

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

---

Dear Unitholders,

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

Thank you for your continual support to the Fund. We would like to inform you that the following change will be made to the Fund and the Explanatory Memorandum:

**Change of Auditor**

KPMG will resign as the auditor of the Fund with effect from 1 February 2012 and Ernst & Young will be appointed as the auditor of the Fund with effect from the same date.

The above change is fully set out in the Fourth Addendum, which should form part of the Explanatory Memorandum and be read in conjunction with the Explanatory Memorandum and its other addenda. Unitholders may obtain a copy of the Fourth Addendum and the latest Explanatory Memorandum from our website at [www.principal.com.hk](http://www.principal.com.hk) or request for a copy through our customer service hotline at (852) 2117 8383.

If you have any queries on the change made to the Fund, please contact the above customer service hotline.

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

Ringo Sinn  
Director



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

This Fourth Addendum forms part of the Explanatory Memorandum of the Fund dated 6 April 2011 (the “**Explanatory Memorandum**”) and should be read in conjunction with the Explanatory Memorandum, the First Addendum dated 20 June 2011, the Second Addendum dated 15 August 2011 and the Third Addendum dated 12 October 2011. All capitalised terms used in this Fourth 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 responsibility for the information contained in this Fourth Addendum as being accurate at the date of publication and has taken all reasonable care to ensure to the best of their knowledge and belief there are no other material facts the omission of which would make any statement of the fact or opinion herein misleading.

---

**Change of Auditor**

With effect from 1 February 2012, the name and address of the “Auditors” under the “Parties” section on p.3 of the Explanatory Memorandum shall be deleted and replaced by the following:

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

18 January 2012

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

This Third Addendum forms part of the Explanatory Memorandum of the Fund dated 6 April 2011 (the “**Explanatory Memorandum**”) and should be read in conjunction with the Explanatory Memorandum, the First Addendum dated 20 June 2011 and the Second Addendum dated 15 August 2011. All capitalized terms used in this Third 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 responsibility for the information contained in this Third Addendum as being accurate at the date of publication and has taken all reasonable care to ensure that to the best of their knowledge and belief there are no other material facts the omission of which would make any statement of fact or opinion herein misleading.

---

The change sets out below shall take immediate effect:

**Initial Issue of Units (Principal Hong Kong Bond Fund)**

The first sentence of the first paragraph on page 2 under the “Initial Issue of Units” section of the First Addendum shall be deleted in its entirety and replaced by the following:

“The Pension Class Units of the Principal Hong Kong Bond Fund will be initially offered for subscription by investors during the period from 9:00 a.m. (Hong Kong time) on 21 June 2011 to 5:00 p.m. (Hong Kong time) on 21 June 2011 and the Retail Class Units of the Principal Hong Kong Bond Fund will be initially offered for subscription by investors during the period from 9:00 a.m. (Hong Kong time) on 1 August 2011 to 5:00 p.m. (Hong Kong time) on 13 October 2011(unless otherwise extended or shortened by the Manager).”

12 October 2011



15 August 2011

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

---

Dear Unitholder,

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

Thank you for your continual support to the Principal Life Style Fund.

**Appointment of Sub-Delegate of the Manager**

With effect from 19 September 2011, the delegate of the manager of the Fund, Principal Global Investors, LLC, intends to appoint Principal Global Investors (Hong Kong) Limited as its sub-delegate to provide discretionary investment management services to Principal Asian Equity Fund (“Sub-Fund”).

Principal Global Investors is the asset investment arm of the Principal Financial Group and includes Principal Global Investors, LLC, Principal Global Investors (Hong Kong) Limited and other offices located around the world. This change aims to fully utilize resources and investment expertise within the Principal Global Investors’ network so as to deliver superior service to our clients.

This new arrangement will not affect the investment objectives or investment policies of the Sub-Fund nor result in any increase in the management fee payable by the investors to the Sub-Fund. However, if you do not agree with the above change and wish to transfer your investments to other sub-funds of the Principal Life Style Fund or our other fund series (i.e. Principal Prosperity Series, Principal Global Selection Fund Series and Principal Global Investors Funds) or wish to redeem your holding in the Sub-Fund, you may do so free of charge at any time up to 19 September 2011. Any request received by us after the date specified above will be handled in accordance with the established procedures under the “Redemption of Units” and “Switching Between Sub-Funds” sections of the Explanatory Memorandum of the Fund.

The change mentioned above is also fully discussed in the Second Addendum attached.

If you have any enquiries, please contact our Customer Hotline at (852) 2117 8383.

Yours faithfully,

For and on behalf of

Principal Asset Management Company (Asia) Limited

Ringo Sinn  
Director

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

This Second Addendum forms part of the Explanatory Memorandum of the Fund dated 6 April 2011 (the “**Explanatory Memorandum**”) and should be read in conjunction with the Explanatory Memorandum and the First Addendum dated 20 June 2011. All capitalized terms used in this Second 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 responsibility for the information contained in this Second Addendum as being accurate at the date of publication and has taken all reasonable care to ensure that to the best of their knowledge and belief there are no other material facts the omission of which would make any statement of fact or opinion herein misleading.

---

The changes set out below shall take effect from 19 September 2011:

**(1) Directory of Parties**

The second part of the sub-section entitled “Sub-Delegate of the Manager” on page 3 shall be deleted in its entirety and replaced by the following:

**“(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 1001-3 Central Plaza  
18 Harbour Road  
Wanchai  
Hong Kong”

**(2) Management and Administration**

The second last sentence of the last paragraph of the sub-section entitled “Manager” on page 12 shall be deleted in its entirety and replaced by the following:

“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”).”

15 August 2011

**PRINCIPAL LIFE STYLE FUND (信安豐裕人生基金) (THE “FUND”)**

**First Addendum to the Explanatory Memorandum**

**Principal Hong Kong Bond Fund (“信安香港債券基金”)**

This First Addendum is supplemental to and should be read in conjunction with the Explanatory Memorandum of the Principal Life Style Fund (the “**Fund**”) dated 6 April 2011 (the “**Explanatory Memorandum**”). All capitalized terms used in this First Addendum shall have the meaning as given to them in the Explanatory Memorandum, unless the context otherwise requires.

Principal Asset Management Company (Asia) Limited (the “**Manager**”) accepts responsibility for the information contained in this First Addendum as being accurate at the date of publication and has taken all reasonable care to ensure that to the best of their knowledge and belief there are no other material facts the omission of which would make any statement of fact or opinion herein misleading.

This First Addendum contains the fund-specific information about the **Principal Hong Kong Bond Fund** (the “**Sub-Fund**”), which has been established under the Fund and will be made available for investment commencing from 21 June 2011. As the Principal Hong Kong Bond Fund is one of the sub-funds under the Fund, the general provisions in the Explanatory Memorandum which are applicable to all the other sub-funds of the Fund will also be applicable to the Principal Hong Kong Bond Fund. For ease of reference, some of these general provisions are set out in this First Addendum and references may also be made to the Explanatory Memorandum.

The Principal Hong Kong Bond Fund has been authorized by the SFC pursuant to the Code on Unit Trusts and Mutual Funds and the SFC Code on MPF Products and approved by the MPF Authority as an approved pooled investment fund under the MPF Regulation. Such approval or authorization does not imply official recommendation of the Principal Hong Kong Bond Fund by the MPF Authority or the SFC. The SFC’s authorization is not a recommendation or endorsement of the Principal Hong Kong Bond Fund nor does it guarantee the commercial merits of the Principal Hong Kong Bond Fund or its performance. It does not mean the Principal Hong Kong Bond Fund is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.

**Investment Objectives and Policies**

**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<sup>#</sup>), 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 options contracts.

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

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

\* 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 debt investments is classified by their currency denomination.

**Investment involves risks.** For more information relating to investing in the Principal Hong Kong Bond Fund, please refer to the “Risk Factors” section on page 10 of the Explanatory Memorandum.

Subject to the approval of the MPF Authority and the SFC, the Manager may change the investment policy of the Principal Hong Kong Bond Fund, or merge or sub-divide the Principal Hong Kong Bond Fund by giving a 3 months’ prior written notice (or such shorter period of notice as the SFC may approve) to the Unitholders concerned. In the case of merger or sub-division, the Unitholders will also be notified of the relevant details.

#### **Investment and Borrowing Restrictions**

The investment and borrowing restrictions as set out in pages 11 to 12 of the Explanatory Memorandum shall be applicable to the Principal Hong Kong Bond Fund.

As at the date of this First Addendum, the Manager does not have any intention to enter into any securities lending agreement, repurchase agreement and similar over-the-counter transactions in respect of the Sub-Fund. If the Manager subsequently determines that a securities lending agreement, repurchase agreement or similar over-the-counter transactions shall be entered into in respect of the Sub-Fund, prior written notice will be given to Unitholders.

#### **Management and Administration**

Principal Asset Management Company (Asia) Limited is the Manager of the Fund. 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 USA regime. Principal Global Investors, LLC has sub-delegated its discretionary investment management function for Principal Hong Kong Bond Fund to both Principal Global Investors (Hong Kong) Limited and Principal Global Investors (Europe) Limited, which are regulated by the Securities and Futures Commission and the Financial Services Authority of the United Kingdom respectively.

#### **Initial Issue of Units**

The Pension Class Units of the Principal Hong Kong Bond Fund will be initially offered for subscription by investors during the period from 9:00 a.m. (Hong Kong time) on 21 June 2011 to 5:00 p.m. (Hong Kong time) on 21 June 2011 and the Retail Class Units of the Principal Hong Kong Bond Fund will be initially offered for subscription by investors during the period from 9:00 a.m. (Hong Kong time) on 1 August 2011 to 5:00 p.m. (Hong Kong time) on 31 October 2011 (unless otherwise extended or shortened by the Manager). The Investment Class Units will be offered for subscription at such time as may be determined by the Trustee and the Manager. All Units are denominated in Hong Kong dollars.

Units of the Pension Class Units and Retail Class 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. Units of Investment Class Units will be offered at such other time and price as may be determined by the Trustee and the Manager.

The Manager may levy an initial charge on the issue of the Retail Class Units of the Principal Hong Kong Bond 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 Principal Hong Kong Bond Fund.



**Charges and Expenses**

(i) Management Fee

The maximum management fee for each class of Units of the Principal Hong Kong Bond Fund is 2% per annum of its net asset value. The management fee which the Manager may currently levy shall be as follows:

	<b>Management Fee (p.a.)</b>		
	<b>Investment Class Units</b>	<b>Pension Class Units</b>	<b>Retail Class Units</b>
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	Nil	0.5%

Subject to the approval of the MPF Authority, the Manager may 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 shorter period of notice as the SFC may approve) of such increase.

(ii) 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 of the Principal Hong Kong Bond Fund. In the switching of Units of the Investment Class Units or Retail Class Units, 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 or Investment 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 Sub-Fund.

(iii) Trustee Fee

The maximum trustee fee for each class of Units of the Principal Hong Kong Bond Fund is 1% per annum of its net asset value. The trustee fee which the Trustee may currently levy shall be as follows:

	<b>Trustee Fee (p.a.)</b>		
	<b>Investment Class Units</b>	<b>Pension Class Units</b>	<b>Retail Class Units</b>
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	Nil	0.2%

Subject to the approval of the MPF Authority, the Trustee may 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 shorter period of notice as the SFC may approve) of such increase.

Subject to the approval of the MPF Authority, the Trustee and the Manager may increase the maximum levels of the above fees and charges in respect of the Pension Class Units and Investment Class Units of the Sub-Fund by giving to the Unitholders concerned 3 months' prior written notice (or such shorter period of notice as the SFC may approve). Subject to the sanction of an Extraordinary Resolution of the Unitholders concerned and the approval of the MPF Authority and the SFC, the Trustee and the Manager may increase the maximum levels of the fees and charges in respect of the Retail Class Units of the 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 the Sub-Fund will not exceed HK\$1,000 per month.

(iv) Other charges and expenses

The Principal Hong Kong Bond 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 the Sub-Fund, it 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 fees and expenses of custodians and sub-custodians of the assets of the Fund. 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. For further details, see "Other Charges and Expenses" on page 21 of the Explanatory Memorandum.

In addition, 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.

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

20 June 2011

## 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 annual report and accounts 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 annual reports and accounts and interim reports. 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.

The Fund has also 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 associate 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: 6 April 2011

## TABLE OF CONTENTS

	Page
PARTIES .....	3
DEFINITIONS.....	4
INVESTMENT OBJECTIVES AND POLICIES.....	6
RISK FACTORS.....	10
INVESTMENT AND BORROWING RESTRICTIONS .....	11
Investment Restrictions .....	11
Borrowing Restrictions .....	12
General .....	12
MANAGEMENT AND ADMINISTRATION .....	12
Manager.....	12
Trustee and Registrar .....	13
ISSUE OF UNITS.....	13
Classes of Units .....	13
Initial Issue of Units.....	13
Subsequent Issues of Units .....	14
Minimum Subscription and Subsequent Holding .....	14
Application Procedure .....	15
Payment Procedure.....	15
General .....	15
REDEMPTION OF UNITS.....	15
Payment of Redemption Proceeds .....	16
Payment of Redemption Proceeds by Distribution in Specie.....	16
Restrictions on Redemption .....	16
SWITCHING BETWEEN SUB-FUNDS .....	17
CALCULATION OF NET ASSET VALUE AND ISSUE AND REDEMPTION PRICES .....	17
Calculation of Issue and Redemption Prices .....	18
Suspension of Calculation of Net Asset Value.....	18
DISTRIBUTION POLICY.....	19
REGULAR SAVINGS PLAN .....	19
CHARGES AND EXPENSES.....	20
Management Fee .....	20
Initial Charge, Redemption Charge and Switching Fee.....	20
Trustee Fee.....	21
Other Charges and Expenses.....	21
Cash Rebates and Soft Commissions .....	22
TAXATION .....	22
Hong Kong.....	22
General .....	22
GENERAL INFORMATION .....	22
Accounts and Reports.....	22
Publication of Net Asset Value per Unit.....	23
Investment Restrictions .....	23
Removal and Retirement of the Trustee and the Manager .....	23
Termination of the Fund.....	23
Termination of a Sub-Fund .....	24
Trust Deed .....	24
Modification of Trust Deed.....	24
Meetings of Unitholders.....	24
Transfer of Units.....	25
Documents Available for Inspection .....	25
Enquiries and Complaints.....	25
Anti-Money Laundering Regulations .....	25

## PARTIES

### **Manager**

Principal Asset Management Company (Asia) Limited  
Unit 1001-3, Central Plaza  
18 Harbour Road  
Wanchai, Hong Kong

### **Trustee, Custodian and Registrar**

Principal Trust Company (Asia) Limited  
Unit 1001-3, Central Plaza  
18 Harbour Road  
Wanchai, Hong Kong

### **Delegates of the Manager**

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

### **Sub-Delegate of the Manager**

(for Principal International Bond Fund and Principal European Equity Fund)  
Principal Global Investors (Europe) Limited  
10 Gresham Street  
London EC2V 7JD  
United Kingdom

(for Principal Hong Kong Dollar Savings Fund, Principal Hong Kong Equity Fund and Principal China Equity Fund)  
Principal Global Investors (Hong Kong) Limited  
Unit 1001-3 Central Plaza  
18 Harbour Road  
Wanchai  
Hong Kong

### **Legal Advisers to the Manager**

Baker & McKenzie  
14th Floor, Hutchison House  
10 Harcourt Road  
Central, Hong Kong

### **Auditors**

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

### **Directors of the Manager**

Norman R. J. Sorensen Valdez  
Nora Mary Everett  
Binay Chandgothia  
Sinn Pak Ming, Ringo  
Yuen Sze Fun, Keith

### **Website**

[www.principal.com.hk](http://www.principal.com.hk)

The distributor of the Fund is Principal Global Investors (Asia) Limited.

## DEFINITIONS

<b>“Business Day”</b>	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
<b>“connected person”</b>	in relation to a company means <ul style="list-style-type: none"><li>(a) any person beneficially owning, directly or indirectly, 20% or more of the ordinary share capital of that company or able to exercise 20% or more of the total voting rights of that company;</li><li>(b) any company controlled by a person as described in (a);</li><li>(c) any company 20% or more of its ordinary share capital is beneficially owned, directly or indirectly, by that company and any company 20% or more of the total voting rights can be exercised, directly or indirectly, by that company; or</li><li>(d) any director or officers of that company or any of its connected person as defined in (a), (b) or (c) above</li></ul>
<b>“Dealing Day”</b>	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
<b>“Fund”</b>	Principal Life Style Fund
<b>“HK\$” and “HK dollars” and “Hong Kong dollars”</b>	the currency of Hong Kong
<b>“Hong Kong”</b>	the Hong Kong Special Administrative Region of the People’s Republic of China
<b>“Manager”</b>	Principal Asset Management Company (Asia) Limited
<b>“MPF Authority”</b>	Mandatory Provident Fund Schemes Authority
<b>“MPF Regulation”</b>	Mandatory Provident Fund Schemes (General) Regulation, as amended from time to time
<b>“MPFS Ordinance”</b>	Mandatory Provident Fund Schemes Ordinance (Cap 485 of the Laws of Hong Kong), as amended from time to time
<b>“SFC”</b>	Securities and Futures Commission of Hong Kong
<b>“Sub-Fund”</b>	a separate pool of assets of the Fund, which is invested and administered separately from other assets of the Fund
<b>“Trust Deed”</b>	the trust deed dated 7 May 2003 establishing the Fund
<b>“Trustee”</b>	Principal Trust Company (Asia) Limited
<b>“Unit”</b>	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
<b>“Unitholder”</b>	a registered holder of Units
<b>“US\$” and “US dollars”</b>	the currency of the United States of America
<b>“UTMF Code”</b>	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. Dollar Savings Fund
6. Principal U.S. Equity Fund
7. Principal Hong Kong Equity Fund
8. Principal China Equity Fund
9. Principal European Equity Fund
10. Principal Pension 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.

Three classes of Units, namely the Investment Class Units, Pension Class Units and Retail 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 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	0 - 65%
South Korea	0 - 65%
Malaysia	0 - 40%
Singapore	0 - 40%
Taiwan	0 - 40%
China	0 - 40%
Indonesia	0 - 40%
Philippines	0 - 40%
Thailand	0 - 40%
India	0 - 40%
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 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	15 - 65%
France	0 - 50%
Germany	0 - 50%
Hong Kong	0 - 50%
Italy	0 - 50%
Japan	0 - 50%
Canada	0 - 20%
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 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 options 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. Dollar Savings Fund**

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

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

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*	
United States	70 - 100%
Hong Kong	0 - 30%
Europe	0 - 30%
Others	0 - 20%

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

#### **(vi) 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 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.

#### **(vii) 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 primarily in listed equities issued by companies established in Hong Kong or by companies whose shares are listed in Hong Kong (including but not limited to H shares and shares of red-chip companies listed 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 cash and short-term investments. The risk profile of the Principal Hong Kong Equity Fund is generally regarded as high. 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 options 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	30 - 100%
China	0 - 50%
Others	0 - 30%

Notwithstanding that, at least 70% of the non-cash assets of the Principal Hong Kong Equity Fund will be invested in equities listed on the Hong Kong Stock Exchange. The Sub-Fund does not invest in A-shares in the People's Republic of China but may invest not more than 10% in total of its assets in 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.

#### **(viii) 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 primarily in equities issued by companies with exposure in different sectors of economies in People's Republic of China (Mainland China). Equity securities include but are not limited to equity shares, preference shares, depository receipts and other collective investment schemes as permitted under the MPF Regulation. The Sub-Fund does not invest in A-shares in the People's Republic of China but may invest not more than 10% in total of its assets in B-shares.

The Principal China 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. 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 options 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.

#### **(ix) 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.

#### **(x) 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 options 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.

*\*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 risk factors, including the following:

- (a) Political, economic and social risks — Changes in political, economic and social conditions in any country in which the Sub-Funds may invest could adversely affect the value of investments.
- (b) Interest rate risk — As the Sub-Funds may invest in securities whose value is driven significantly by changes in interest rates, the Sub-Funds are subject to interest rate risk. When interest rates rise, the value of previously issued debt securities will normally fall because new debt securities issued will pay a higher rate of interest. In contrast, if interest rates fall, then the value of the previously issued debt securities will normally rise.
- (c) Market risk — Market risk includes such factors as changes in economic environment, consumption pattern and investors' expectation etc. which may have significant impact on the value of the investments. Usually, emerging markets tend to be more volatile than developed markets and may experience substantial price volatility. Options, warrants and derivatives in the Sub-Fund may also expose the Sub-Fund significantly to the fluctuations in the market. Market movement may therefore result in substantial fluctuation in the net asset value per unit of the Sub-Fund.
- (d) Accounting standards and disclosure — The Sub-Funds may invest in emerging markets. The accounting, auditing and financial reporting standards in some of these markets are normally less stringent than international requirements. Investment decisions may be required to be made on less complete information than is customarily available.
- (e) Foreign exchange risk — The Sub-Funds will invest in currencies other than HK dollars which may be subject to exchange rate fluctuations with a consequential reduction in the HK dollar value of investments. Repatriation of capital invested may be hampered by changes in regulations applicable to foreign investors which may have an adverse impact on a Sub-Fund's performance.
- (f) Securities risk — Each company has its unique factors affecting the value of its securities. These factors include the company's management capability, capital structure, liquidity position, product composition and others.
- (g) Credit risk — If the issuer of any of the fixed interest securities/debt securities in which the Sub-Funds' assets are invested defaults, such securities may become worthless and the performance of the Sub-Funds will be adversely affected. The issuer's default or insolvency can result in a drop in the value of the Sub-Funds.
- (h) Downgrading risk — There is a risk of downgrading of securities i.e. securities ratings getting downgraded by rating agencies which may cause the value of the securities to drop significantly. It thereby can adversely affect the performance of the Sub-Funds.
- (i) Volatility risk — There may be times when there is extreme volatility in markets, causing market values to move dramatically in either direction. Such moves may cause fund prices to move up or down significantly. Investors need to be aware of and be prepared for such volatility.
- (j) Liquidity risk — Under normal circumstances, the securities invested by the Sub-Funds can be easily bought or sold in the market. However, there may be times when the liquidity in the markets may dry up, making it difficult for the portfolio managers to transact in held securities or value them using traded market prices. In such circumstances, the portfolio managers will use the best available options of transacting and/or valuing them.
- (k) 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 by 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.

### **Specific Risks relating to Investment in Emerging Market Economies**

The general risks mentioned under the "Risk Factors" section of the Explanatory Memorandum are usually heightened in emerging market economies. Investment in emerging market economies involves certain considerations which are not normally involved in investment in more developed markets. As such, investment in emerging market economies may be considered speculative and carry significant risk, including the following:

- (a) Legal and regulatory risks — The laws and regulations in emerging market economies may be less defined than those in developed countries. The issuers and stock exchanges and other market participants may be subject to a level of regulation which is lower than that in developed countries. Investments may also be affected by changes in law and government policy which may result in restrictions on foreign investments and/or repatriation of monies.
- (b) Less developed infrastructure — The banking and telecommunications systems in emerging market economies may be less efficient and may give rise to delays in payments. Procedures currently in place for custody, settlement, clearing and registration of securities transactions in developing countries may be less developed than those in place in developed countries and may increase settlement risk or result in delay in realising securities, and thus may adversely affect prices. The liquidity of the securities markets in emerging market economies may also be much lower than that in developed countries which means that it may at times be difficult to sell securities at desirable prices.
- (c) Concentration risk — Sub-Fund(s) with objective of investing in emerging market economies are concentrated in emerging economies markets and the investment performance is sensitive to movements in these markets. Therefore, the performance of the Sub-Fund(s) may differ significantly in direction and degree from the overall global stock market performance.

## **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.

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

- (i) The value of each Sub-Fund's latest holding of securities issued by any single issuer may not exceed 10% of its total net asset value.
- (ii) Each Sub-Fund may not hold more than 10% of any ordinary shares issued by any single issuer.
- (iii) The value of a Sub-Fund's holding of securities neither listed nor quoted on a market may not exceed 10% of its total net asset value.
- (iv) Notwithstanding (i) and (ii), 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.
- (v) Subject to (iv), each Sub-Fund may invest all of its assets in Government and other public securities in at least six different issues.
- (vi) The writing of uncovered options by the Sub-Fund is prohibited.
- (vii) The writing of call options by the Sub-Fund is prohibited.
- (viii) The Sub-Fund may enter into financial futures contracts and financial option contracts for hedging purposes.
- (ix) The value of the Sub-Fund's holding of units or shares in other collective investment schemes may not in aggregate exceed 10% of its total net asset value.
- (x) The 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).
- (xi) No short sale may be made.

- (xii) 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.
- (xiii) The Sub-Fund may not acquire any asset which involves the assumption of any liability which is unlimited.
- (xiv) The 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 the 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:
  - (i) 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;
  - (ii) no more than 10% of the net asset value of the Sub-Fund can be the subject of security lending agreements; and
  - (iii) 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.

*\*As at the date of this Explanatory Memorandum, the Manager does not have any intention to enter into any securities lending agreement in respect of any Sub-Fund. If the Manager subsequently determines that a securities lending agreement shall be entered into in respect of a Sub-Fund, this Explanatory Memorandum will be updated to contain the relevant details of the securities lending arrangements.*

### **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.

### **General**

If any of the investment and borrowing restrictions are breached, the Manager shall as a priority objective take all steps necessary as soon as practicable 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.

As of 22 December 2010, the total assets under the management of Principal Asset Management Company (Asia) Limited amount to approximately HK\$18.5 billion.

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. It manages US\$232.4 billion assets as of 31 December 2010. Principal Global Investors, LLC has sub-delegated its discretionary investment management function for Principal European Equity Fund and Principal International Bond 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 Hong Kong Dollar Savings Fund, Principal Hong Kong Equity Fund and Principal China 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 is responsible for the safekeeping of the assets of the Fund and administering the Fund in accordance with all applicable laws and regulations. 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. In so doing, the Trustee shall supervise and exercise proper control over the custodian and delegates so appointed or engaged.

## **ISSUE OF UNITS**

### **Classes of Units**

Initially, three classes of Units will be available in relation to each Sub-Fund of the Fund. The three 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) 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 (but excluding any registered scheme, approved pooled investment fund or occupational retirement scheme which is not managed by Principal Asset Management Company (Asia) Limited at the time of establishment of such registered scheme, approved pooled investment fund or occupational retirement scheme (as the case may be)).
- (iii) Retail Class Units - Available to retail investors and any other investors to which the Pension Class Units and Investment Class Units are not made available.

Units in each class will be denominated in HK dollars.

### **Initial Issue of Units**

The following classes of Units were initially offered to investors during the initial offer period from 9:00 a.m. (Hong Kong time) on 2 July 2003 to 5:00 p.m. (Hong Kong time) on 2 July 2003 (excluding Principal Hong Kong Equity Fund, Principal China Equity Fund, Principal European Equity Fund and Principal Pension Bond Fund):

- (i) Pension Class Units of each of the Sub-Funds; and
- (ii) Retail Class Units of each of the Sub-Funds

The Manager decided to offer the Investment Class Units of the Principal Asian Equity Fund, Principal International Bond Fund and Principal U.S. Equity Fund (the "Sub-Funds") to investors. The Investment Class Units of each of the above mentioned Sub-Funds were initially offered for subscription by investors during the initial period from 9:00 a.m. (Hong Kong time) on 8 August 2005 to 5:00 p.m. (Hong Kong time) on 30 December 2005. All Units are denominated in Hong Kong dollars.

The Investment Class Units of the Principal Hong Kong Equity Fund were initially offered for subscription by investors during the initial period from 9:00 a.m. (Hong Kong time) on 11 April 2005 to 5:00 p.m. (Hong Kong time) on 30 November 2005. The Pension Class Units and Retail Class Units were initially offered for subscription by investors during the initial period from 9:00 a.m. (Hong Kong time) on 11 July 2005 to 5:00 p.m. (Hong Kong time) on 30 August 2005.

The Pension Class Units and Retail Class Units of the Principal China Equity Fund were initially offered for subscription by investors during the initial period from 9:00 a.m. (Hong Kong time) on 12 March 2007 to 5:00 p.m. (Hong Kong time) on 28 June 2007. The Investment Class Units of the Principal China Equity Fund were initially offered for subscription by investors during the initial period from 9:00 a.m. (Hong Kong time) on 2 June 2008 to 5:00 p.m. (Hong Kong time) on 30 June 2008. All Units are denominated in Hong Kong dollars.

The Investment Class Units and Pension Class Units of the Principal European Equity Fund were initially offered for subscription by investors during the initial period from 9:00 a.m. (Hong Kong time) on 1 August 2008 to 5:00 p.m. (Hong Kong time) on 1 August 2008. The Retail Class Units will be offered for subscription at such time as may be determined by the Trustee and the Manager. All Units are denominated in Hong Kong dollars.

The Pension Class Units of the Principal Pension Bond Fund were initially offered for subscription by investors during the initial period from 9:00 a.m. (Hong Kong time) on 4 December 2008 to 5:00 p.m. (Hong Kong time) on 4 December 2008. The Investment Class Units and Retail Class Units will be offered for subscription at such time as may be determined by the Trustee and the Manager. All Units are denominated in Hong Kong dollars.

The Retail Class Units of Principal U.S. Dollars Savings Fund are not available for retail distribution.

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.

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 18 below). The Manager may levy an initial charge on the issue of the Retail 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 or 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:

	<b>Initial subscription (inclusive of initial charges)</b>	<b>Each subsequent subscription (inclusive of initial charges)</b>	<b>Minimum balance</b>
Investment 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

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 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 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) Ltd – Unit Trust Subscription Account  
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. Payment in other freely convertible currencies may also be accepted. Where amounts are received in a currency other than Hong Kong dollars, they will be converted into Hong Kong dollars and the proceeds of conversion (after deducting the costs of such conversion which will be borne by the investor) will be applied in the subscription of Units in the relevant Sub-Funds. 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 18 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 18 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 17 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 18 below).

With a view to protecting the interests of Unitholders, the Manager is entitled, with the approval of the Trustee, to 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 latest available net asset value of such Sub-Fund. 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 14; 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) and (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 or Investment 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 or Retail 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 18). 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 14 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 16 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 consent of the Trustee adjust the value of any investment or permit some other method of valuation to be used if, having regard to relevant circumstances, the Manager considers that such adjustment or use of such other method is required to reflect the market value of the investment; 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 up 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. 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 or 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, after giving notice to the Trustee, 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, as soon as may be practicable after any such declaration and at least once a month during the period of such suspension, publish a notice in the South China Morning Post, Hong Kong Economic Times and/or any other newspapers which the Manager may from time to time determine and notify the Unitholders 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.

## **DISTRIBUTION POLICY**

The Manager currently does not intend to make distributions in respect of any Sub-Fund and any income earned by a Sub-Fund will be reinvested in that Sub-Fund and reflected in the value of Units of the relevant class of that Sub-Fund. If the Manager intends to make any distributions in respect of any Sub-Fund, the Manager will give the relevant Unitholders 3 months' notice (or such shorter period of notice which the SFC may approve).

## **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.

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 14 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 17.

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 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.)		
	Investment Class Units	Pension Class Units	Retail Class Units
1. Principal Asian Equity Fund	1.00%	Nil	1.20%
2. Principal International Bond Fund	0.80%	Nil	1.00%
3. Principal International Equity Fund	1.00%	Nil	1.20%
4. Principal Hong Kong Dollar Savings Fund	0.60%	Nil	0.25%
5. Principal U.S. Dollar Savings Fund	0.60%	Nil	0.75%
6. Principal U.S. Equity Fund	1.00%	Nil	1.20%
7. Principal Hong Kong Equity Fund	1.00%	Nil	1.20%
8. Principal China Equity Fund	1.00%	Nil	1.50%
9. Principal European Equity Fund	1.00%	Nil	1.50%
10. Principal Pension Bond Fund	0.80%	Nil	1.00%

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. 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 shorter period of notice as the SFC may approve) 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 in each Sub-Fund. In the switching of Units of the Investment Class or Retail 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 or Investment 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.)		
	Investment Class Units	Pension Class Units	Retail Class Units
1. Principal Asian Equity Fund	0.2%	Nil	0.2%
2. Principal International Bond Fund	0.2%	Nil	0.2%
3. Principal International Equity Fund	0.2%	Nil	0.2%
4. Principal Hong Kong Dollar Savings Fund	0.2%	Nil	0.2%
5. Principal U.S. Dollar Savings Fund	0.2%	Nil	0.2%
6. Principal U.S. Equity Fund	0.2%	Nil	0.2%
7. Principal Hong Kong Equity Fund	0.2%	Nil	0.2%
8. Principal China Equity Fund	0.2%	Nil	0.2%
9. Principal European Equity Fund	0.2%	Nil	0.2%
10. Principal Pension Bond Fund	0.2%	Nil	0.2%

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 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 shorter period of notice as the SFC may approve) 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 and Investment Class Units of any Sub-Fund by giving to the Unitholders concerned 3 months' prior written notice (or such shorter period of notice as the SFC may approve). 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 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.

## 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 realising 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.

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 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 and any of its connected persons may effect transactions by or through the agency of another person with whom the Manager or any of its connected persons have an arrangement under which that party will from time to time provide to or procure for 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 or any of its connected persons in providing services to the Fund and for which no direct payment is made but instead the Manager or any of its 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 accounts.

## **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 is not expected to be subject to Hong Kong tax in respect of any of its authorized activities.

No tax will be payable by Unitholders in Hong Kong in respect of income distributions of the Fund or in respect of any capital gains arising on a sale, redemption or other disposal of Units, except that Hong Kong profits tax may arise where such transactions form part of a trade, profession or business carried on in Hong Kong.

### **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 Reports**

The Fund's year end is 31 December in each year commencing 31 December 2003. Audited accounts 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. 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 accounts 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.hk](http://www.principal.com.hk) (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 the Retail Class Units of the Sub-Funds (rounded up to 4 decimal places) will be published on each Dealing Day in South China Morning Post, Hong Kong Economic Times and/or any other newspapers which the Manager may from time to time determine and notify the Unitholders. 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 11.

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 (excluding those held or deemed to be held by the Manager) 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 with 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;

- (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.

### **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. 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 the Retail 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 or official requirement or (iii) is made to correct a manifest error, no modifications 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 per cent (or, in relation to a resolution proposed as an extraordinary resolution, 25 per cent) 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 per cent 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.

### **Documents Available for Inspection**

Copies of the Trust Deed, investment management contract, investment delegation agreement and the latest annual and semi-annual 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 Unit 1001-3, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong. 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.

This page is left blank intentionally.