



Principal Life Style Fund

Explanatory Memorandum

Principal®

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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.

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

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PARTIES

Manager

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Wanchai, Hong Kong

Trustee, Custodian and Registrar

Principal Trust Company (Asia) Limited
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Delegates of the Manager

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Sub-Delegate of the Manager

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United Kingdom

(for Principal Hong Kong Dollar Savings Fund, Principal Hong Kong Equity Fund and Principal China Equity Fund)
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Legal Advisers to the Manager

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Directors of the Manager

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Website

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

DEFINITIONS

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

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

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

1. Principal Asian Equity Fund
2. Principal International Bond Fund
3. Principal International Equity Fund
4. Principal Hong Kong Dollar Savings Fund
5. Principal U.S. 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:

	Initial subscription (inclusive of initial charges)	Each subsequent subscription (inclusive of initial charges)	Minimum balance
Investment Class Units	HK\$5,000,000	HK\$200,000	HK\$5,000,000
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 (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.

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