

China Life Central Provident Fund
(“Fund”)

NOTICE TO PARTICIPATING EMPLOYERS AND MEMBERS

This notice is important. Terms used in this notice (unless otherwise defined below) bear the same meaning as in the Principal Brochure July 2011 Edition (“Principal Brochure”) of the Fund. If you are in doubt about the contents of this notice, you should seek independent professional financial advice. The Trustee of the Fund accepts responsibility for the contents of this notice as being accurate as of the date of this notice.

Summary of the Key Changes to the Fund

A. Changes to the Guaranteed Policy

China Life Insurance (Overseas) Company Limited (“China Life Insurance (Overseas)”), as guarantor and insurer of the Guaranteed Policy (i.e. Deposit Administration (Guaranteed Fund) Policy, the policy in which the contributions of Employers and Members of the Fund are solely invested), proposed certain changes (“Changes”) to the guaranteed net return, the range of asset allocation of investments, and the guarantee mechanism of the Guaranteed Policy, where the changes to the guaranteed net return and the range of asset allocation of investments will take effect from 1 September 2021 (“First Effective Date”) while the changes to the guarantee mechanism will take effect from 1 January 2022 (“Second Effective Date”).

Changes that will take effect from the First Effective Date

a. Guaranteed net return

After the Changes, the guaranteed net return will be reduced from 3% p.a. to 1.50% p.a. (i.e. a reduction of 50% of the guaranteed net return) from the First Effective Date. The guaranteed net return for the period before the First Effective Date will remain as 3% p.a.

b. Asset allocation

After the Changes, the range of asset allocation of investments of the Guaranteed Policy will be amended as follows:

Asset Allocation	Targeted Weighting (range %)	
	Before the Changes	After the Changes
Fixed Income	50-90	60-100
Equities	5-30	0-10
Cash	5-20	0-30

Changes that will take effect from the Second Effective Date

c. Guaranteed mechanism

After the Changes, the guaranteed net return will instead, in essence, operate as follows:

- An “Actual Balance” (as defined in the section titled “Guaranteed Policy after the Changes taking effect from the Second Effective Date” in this notice) to which the actual investment return is credited, and a “Guaranteed Balance” (as defined in the section titled “Guaranteed Policy after the Changes taking effect from the Second Effective Date” in this notice) which is a notional balance to which the guaranteed net return is credited, will be maintained for each Member Account.
- If the Actual Balance exceeds the Guaranteed Balance at the time of withdrawal during a given year, the withdrawal amount will be the Actual Balance with the guaranteed net return pro-rated from 1 January of that year up to the Business Day (as defined in the section titled “Guaranteed Policy after the Changes taking effect from the Second Effective Date” in this notice) immediately preceding the day of withdrawal if the withdrawal takes place before 31 December of that year when the actual investment

return is declared.

- If the Actual Balance is lower than the Guaranteed Balance at the time of withdrawal, the withdrawal amount will be the Guaranteed Balance where the guaranteed net return is calculated up to the Business Day immediately preceding day of withdrawal.

After the Changes, in addition to the guaranteed net return, the Guaranteed Policy will provide guarantee on capital which will encompass the actual amount of all contributions invested in the Guaranteed Policy less any amount previously withdrawn, together with any previously declared return accumulated up to the Second Effective Date. Accordingly, after the Changes, the annual return of the Guaranteed Policy will no longer be reset annually at the higher of the actual investment return of that year and the guaranteed net return. In the event of a large negative investment return in a particular year which exceeds the positive investment return accumulated in the Actual Balance in the past, Members will only receive the guaranteed net return in the Guaranteed Balance at the time of withdrawal.

Please refer to Part 1 “Changes to the Guaranteed Policy” of this notice for details of the Changes.

B. Actions required by Employers and Members

As the Fund solely invests in the Guaranteed Policy and the choice of participating in the Fund lies with Employers, before the First Effective Date of the Changes:

- a. Employers may choose not to take any action in which case Members will continue to invest their current balances and future contributions in the Guaranteed Policy.
- b. In case Employers choose to terminate their participation in the Guaranteed Policy, Employers may give at least 1 month’s written notice (“Notice of Cessation”) to the Trustee advising the date of termination. All such Notice of Cessation must be received by the Trustee on or before 1 September 2021 (“Cut-off Date”), in which case the Termination Charge applicable to termination within first 5 years of participation of an Employer will be waived by China Life Insurance (Overseas).

Please refer to Part 2 “Actions required by Employers and Members” of this notice for more details.

The latest Principal Brochure has been amended by way of the Sixth Addendum and the Guaranteed Policy has also been amended by way of endorsement to reflect the Changes. Should you have any queries, please contact the Trustee’s hotline 3999 5555.

Dear Employers and Members,

1. Changes to the Guaranteed Policy

China Life Insurance (Overseas) is the guarantor and insurer of the Guaranteed Policy (i.e. Deposit Administration (Guaranteed Fund) Policy, the policy in which the contributions of Employers and Members of the Fund are solely invested). In accordance with clause 9(c) of the Guaranteed Policy and the Principal Brochure, China Life Insurance (Overseas) and the Trustee are hereby giving 6 months’ prior notice in relation to the Changes proposed to be made by China Life Insurance (Overseas) to the guaranteed net return and the range of asset allocation of investments of the Guaranteed Policy, which will take effect from the First Effective Date (i.e. 1 September 2021), and to the guarantee mechanism, which will take effect from the Second Effective Date (i.e. 1 January 2022).

Current Guaranteed Policy

Guarantee mechanism

Currently, the Guaranteed Policy provides a guaranteed net return of 3% p.a. and the guaranteed net return works as follows:

- (i) If the actual gross return of the Guaranteed Policy declared by China Life Insurance (Overseas) at the end of December of a calendar year exceeds the guaranteed net return of 3% p.a., the actual return for that year will be the actual gross return less the reserve fee. A reserve fee of up to a maximum of 0.5% p.a. of the net asset value of the Guaranteed Policy as at 31 December of each calendar year may be charged by China

Life Insurance (Overseas) on the amount of gross return exceeding the guaranteed net return of 3% p.a. at its sole discretion.

- (ii) If the actual gross return of the Guaranteed Policy declared by China Life Insurance (Overseas) at the end of December of a calendar year is lower than the guaranteed net return of 3% p.a., the shortfall will be made up by China Life Insurance (Overseas). The guaranteed net return will be credited to each Member Account at the beginning of the following financial year of the Fund with retrospective effect.

Accordingly, in addition to the guaranteed net return, the Guaranteed Policy currently provides guarantee on capital which encompasses (i) the actual amount of contributions invested in the Guaranteed Policy, together with any declared rate of return accumulated up to and including 31 December of the preceding calendar year, and (ii) the actual amount of contributions invested in the Guaranteed Policy in the current year.

Asset allocation

Currently, the range of asset allocation of the investments of the Guaranteed Policy is as follows:

Asset Allocation	Targeted Weighting (range %)
Fixed Income	50-90
Equities	5-30
Cash	5-20

Guaranteed Policy after the Changes taking effect from the First Effective Date

Guaranteed net return

From the First Effective Date, the guaranteed net return offered under the Guaranteed Policy will be changed from 3% p.a. to 1.50% p.a. The guaranteed net return for the period before the First Effective Date will remain as 3% p.a. For details of the reasons for the change to the guaranteed net return, please refer to the section below titled “Guaranteed Policy after the Changes taking effect from the Second Effective Date” of this notice.

Asset allocation

After the Changes, the range of asset allocation of the investments of the Guaranteed Policy will be amended as follows:

Asset Allocation	Targeted Weighting (range %) after the Changes
Fixed Income	60-100
Equities	0-10
Cash	0-30

China Life Insurance (Overseas) proposed the changes to the range of asset allocation of investments as a result of a product review conducted by China Life Insurance (Overseas) and the recent market conditions with the aim of sustaining the continuous operation of the Guaranteed Policy.

Guaranteed Policy after the Changes taking effect from the Second Effective Date

From the Second Effective Date, the Changes to the guarantee mechanism will take effect such that the guaranteed net return will work as follows instead:

- (i) An “Actual Balance” and a “Guaranteed Balance” will be maintained for each Member Account.

“Actual Balance” means the balance in each Member Account to which (i) the capital (including any previously declared return accumulated up to the Second Effective Date), (ii) the actual investment return declared after the Second Effective Date by China Life Insurance (Overseas) from time to time compounded annually on a daily accrual basis, and (iii) where the calculation is made before 31 December of a given year when the actual investment return is declared, the guaranteed net return of 1.50% p.a. pro-rated on a daily accrual basis for the period from 1 January of that year to the Business Day (as defined below) immediately preceding the relevant day of calculation, is credited, net of all fees and charges including any investment fee, reserve fee and smoothing provision.

“Guaranteed Balance” means, from the Second Effective Date, the notional balance in each Member Account to which (i) the capital (including any previously declared return accumulated up to the Second Effective Date), and (ii) the guaranteed net return of 1.50% p.a. (compounded annually on a daily accrual basis) is credited.

“Business Day” means a day (not being a Saturday or Sunday or a public holiday) on which banks are generally open for usual banking business in Hong Kong.

- (ii) If the Actual Balance exceeds the Guaranteed Balance at the time of withdrawal, the withdrawal amount will be the Actual Balance where the guaranteed net return is pro-rated up to the Business Day immediately preceding the day of withdrawal.
- (iii) If the Actual Balance is lower than the Guaranteed Balance at the time of withdrawal, the withdrawal amount will be the Guaranteed Balance where the guaranteed net return is calculated up to the Business Day immediately preceding the day of withdrawal and the shortfall will first be made up by the smoothing provision, and if the smoothing provision is insufficient, then by China Life Insurance (Overseas). The guaranteed net return of 1.50% p.a. will be credited to each Member Account at the time of withdrawal with retrospective effect.

Accordingly, from the Second Effective Date, in addition to the guaranteed net return, the Guaranteed Policy will provide guarantee on capital which instead encompasses the actual amount of all contributions invested in the Guaranteed Policy less any amount previously withdrawn, together with any previously declared return accumulated up to the Second Effective Date. Therefore, after the Changes, the annual return of the Guaranteed Policy will no longer be reset annually at the higher of the actual investment return of that year and the guaranteed net return. In the event of a large negative investment return in a particular year which exceeds the positive investment return accumulated in the Actual Balance in the past, such large negative return loss will be deducted from the Actual Balance and past positive investment return may be wiped out in the worst case scenario for the Actual Balance, Members will only receive the guaranteed net return in the Guaranteed Balance at the time of withdrawal.

The changes to the guaranteed net return and the guarantee mechanism are proposed as a result of a product review conducted by China Life Insurance (Overseas) and the recent market conditions of the bond and credit market in which the Guaranteed Policy primarily invests to ensure the sustainability of the continuous operation of the Guaranteed Policy. Such conditions mainly refer to a number of stimulus measures introduced by governments and central banks to prevent further deterioration of the weak economy and a global solvency crisis. For example, central banks have implemented a lower interest rate policy for a longer period, while the Eurozone’s governments have rolled out huge fiscal and monetary policies. The Federal Reserve System has also cut its rate to the zero lower bound and taken exceptional measures to bolster credit markets with treasure yields achieving historical lows.

In light of the above development, the return of bond investments of the Guaranteed Policy will be lower. Together with low return generated from money market, it is expected that the investment return of the Guaranteed Policy may fall below the guarantee net return provided under the Guaranteed Policy, therefore leading to the changes to the guarantee mechanism. Without the changes to the guarantee mechanism including the reduction of the guaranteed net return and the operation of the guarantee mechanism, China Life Insurance (Overseas) is of the view that the Guaranteed Policy may not be sustainable in the long run. The Trustee believes that the improved sustainability of the Guaranteed Policy resulting from the changes to the guaranteed net return and the guarantee mechanism is in the interest of Employers and Members.

Illustrative Examples (after the Changes taking effect from the Second Effective Date)

Member ABC joined the Scheme on 01/01/2022 and withdraws on 15/04/2025.

Monthly Contribution for 2022 is HK\$1,500 for each month paid at relevant month end.

Monthly Contribution for 2023 is HK\$1,600 for each month paid at relevant month end.

Monthly Contribution for 2024 is HK\$1,800 for each month paid at relevant month end.
 Monthly Contribution for 2025 from Jan to Apr is HK\$1,800 for each month paid at relevant monthly end.
 Guaranteed net return = 1.50%p.a.

Scenario 1 (Actual Balance is greater than Guaranteed Balance)

Year	Contribution Amount	Guaranteed net return (@1.50%p.a*)	Guaranteed Balance at year end	Annual Declared Investment Return Rate	Investment Return credited [^]	Actual Balance at year end
2022	18,000	125.04	18,125.04	4.50%	375.17	18,375.17
2023	19,200	405.21	37,730.25	-2.00%	-545.31 [#]	37,029.86
2024	21,600	715.66	60,045.91	4.00%	1,880.47	60,510.33
2025	5,400	266.60	65,712.51	1.50%**	241.09	66,151.42

*Net of all fees and expenses including any investment charge, reserve fee and smoothing provision.

**Guaranteed net return at 1.50% will be used for calculation of Actual Balance for interim withdrawal.

[^]After deduction of the reserve fee and smoothing provision, if any, at its maximum limit of 0.5% p.a. each

[#]Please note that negative investment return will be credited to the Actual Balance and will not be reset at the guaranteed rate of 1.50% p.a.

The withdrawal amount will be **HK\$66,151.42**. (i.e. the Actual Balance of HK\$66,151.42 is greater than the Guaranteed Balance of HK\$65,712.51)

Scenario 2 (Actual Balance is less than the Guaranteed Balance)

Year	Contribution Amount	Guaranteed net return (@1.50%p.a*)	Guaranteed Balance at year end	Annual Declared Investment Return Rate	Investment Return credited [^]	Actual Balance at year end
2022	18,000	125.04	18,125.04	2.00%	166.71	18,166.71
2023	19,200	405.21	37,730.25	-3.00%	-811.78 [#]	36,554.93
2024	21,600	715.66	60,045.91	-2.00%	-930.67 [#]	57,224.26
2025	5,400	266.60	65,712.51	1.50%**	229.09	62,853.35

*Net of all fees and expenses including any investment charge, reserve fee and smoothing provision.

**Guaranteed net return at 1.50% p.a. will be used for calculation of Actual Balance for interim withdrawal.

[^]After deduction of the reserve fee and smoothing provision, at its maximum limit of 0.5% p.a. each

[#]Please note that negative investment return will be credited to the Actual Balance and will not be reset at the guaranteed rate of 1.50% p.a.

The withdrawal amount will be **HK\$65,712.51**. (The Guaranteed Balance of HK\$65,712.51 is greater than the Actual Balance of HK\$62,853.35).

Reason for having two effective dates

According to the Guaranteed Policy and as disclosed in item 5(a)(ii) of the Principal Brochure, the actual gross return is declared at the end of each calendar year. Since the new guarantee mechanism will need to take into account any investment return declared before the effective date of the new mechanism when calculating the amount of “capital” in both the Actual Balance and the Guaranteed Balance, the effective date of the new guarantee mechanism is required to be set on a day after the actual gross return has been declared at the end of the relevant calendar year, i.e. the first day of the following calendar year.

In light of the requirement to give 6 months’ notice, the earliest date on which the new guarantee mechanism can take effect is 1 January 2022 (i.e. the Second Effective Date). However, for all Changes other than the changes to the guarantee mechanism, i.e. Changes to the guaranteed net return and the range of asset allocation of investments, since they are not constrained by the timing issue regarding the declaration of actual gross return, these Changes will take effect on the First Effective Date instead.

2. Actions required by Employers and Members

As the Fund solely invests in the Guaranteed Policy and the choice of participating in the Fund lies with Employers, before the First Effective Date of the Changes:

- (i) Employers may choose not to take any action, in which case Members will continue to invest their current balances and future contributions in the Guaranteed Policy. The guarantee entitlements of the Members of the Fund previously accrued and any guarantee entitlements calculated prior to the First Effective Date will not be affected as the current guaranteed net return of 3% p.a. will still be credited to the Members on a pro-rata basis for the period before the First Effective Date. The new guaranteed net return of 1.50% p.a. will be applied to any accumulated balances and subsequent contributions of the Members starting from the First Effective Date (i.e. 1 September 2021), whereas the new guarantee mechanism after the Changes will be applied to any accumulated balances and subsequent contributions of the Members starting from the Second Effective Date (i.e. 1 January 2022).
- (ii) In case Employers choose to terminate their participation in the Guaranteed Policy, Employers may give at least 1 month's written notice (i.e. the Notice of Cessation) to the Trustee advising the date of termination ("Termination Date"). All such Employers' Notice of Cessation must be received by the Trustee on or before the Cut-off Date (i.e. the First Effective Date). The Termination Charge applicable to termination within first 5 years of participation of an Employer will be waived by China Life Insurance (Overseas) if the Notice of Cessation is received by the Trustee on or before the Cut-off Date and there will be no other fees or charges whatsoever to be charged on the termination of Employer's participation. Please note that if an Employer's Notice of Cessation (whose termination is within 5 years of participation) is received by the Trustee after the Cut-Off Date, the Employer will still be subject to the payment of a Termination Charge. Please refer to page 14 "Early Termination of Participation in the Policy" and pages 15 and 16 "Charges" of the Principal Brochure for details.

The guarantee entitlements of the Members of the Fund calculated prior to the Termination Date at the current guaranteed net return of 3% p.a. will be credited to the Members on a pro-rata basis if the Termination Date is before the First Effective Date. If the Termination Date takes place on or after the First Effective Date, the guarantee entitlements of the Members of the Fund prior to the First Effective Date calculated at the current guaranteed net return of 3% p.a. will be credited to the Members on a pro-rata basis, and the new guaranteed net return after the Changes will be applied to any accumulated balances and subsequent contributions of the Members on a pro-rata basis for the period from the First Effective Date to the Termination Date, and if the Termination Date takes place on or after the Second Effective Date, the new guarantee mechanism after the Changes will be applied to any accumulated balances and future contributions of the Members commencing from the Second Effective Date.

3. Impact on Members of the Fund

All costs and expenses associated with the Changes will be solely borne by the Trustee. Other than the Changes, there will be no other changes to the Guaranteed Policy.

Given the options available for Employers and Members set out in section 2 "Actions required by Employers and Members" above and the fact that there will be no other changes to the Guaranteed Policy apart from the Changes, the Trustee believes that the accumulated balances of Members of the Fund accrued in each calendar year prior to the First Effective Date will be adequately protected and will not be materially prejudiced.

The latest Principal Brochure has been amended to reflect the above changes by way of the Sixth Addendum. The Guaranteed Policy has also been amended to reflect the above changes by way of endorsement.

The latest Principal Brochure, including the First Addendum, the Second Addendum, the Third Addendum, the Fourth Addendum, the Fifth Addendum and the Sixth Addendum can be obtained free of charge by accessing the Trustee's website www.chinalifetrustees.com.hk. The Trust Deed and the latest Principal Brochure (including the First Addendum, the Second Addendum, the Third Addendum, the Fourth Addendum, the Fifth Addendum and the Sixth Addendum) are also be available for inspection at the Trustee's office at 17/F, CLI Building, 313 Hennessy Road, Wanchai, Hong Kong.

Should you have any queries, please contact the Trustee's hotline 3999 5555.

China Life Trustees Limited & China Life Insurance (Overseas) Company Limited
22nd February 2021

This is a computer printout and no signature is required.