

# Sun Life Capital Guarantee Plan

Explanatory Memorandum



Life's brighter under the sun

## IMPORTANT

- Sun Life Capital Guarantee Plan (the “Plan”) is a pooled retirement scheme established by an insurance policy issued by Sun Life Hong Kong Limited (“Sun Life”).
- The guarantee of the Capital Guarantee Fund is provided by Sun Life. Your investments in the Capital Guarantee Fund are therefore subject to the credit risks of Sun Life. The guarantee will lapse after ten years from the Commencement Date of the relevant Plan. The guarantee is subject to qualifying conditions as set out in Appendix 1 to this Explanatory Memorandum in respect of the Capital Guarantee Fund.
- The Plan is constituted in the form of an insurance policy. While the benefit payments under the Plan are calculated with reference to the performance of the Capital Guarantee Fund, you are not investing in the Capital Guarantee Fund and do not have any rights or ownership over the Capital Guarantee Fund or its underlying assets. The Capital Guarantee Fund and its underlying assets are legally and beneficially owned by Sun Life. You only have a contractual right to claim the amount representing the benefits under the Plan from Sun Life. Your investment in the Plan is therefore subject to the credit risks of Sun Life.
- You should consider your own risk tolerance level and financial circumstances before making any investment choices. If you are in doubt as to whether the Capital Guarantee Fund is suitable for you (including whether it is consistent with your investment objectives), you should seek independent financial and/or professional advice.
- You should read this Explanatory Memorandum for further details including product features, fees and charges and risk factors (set out in section 3 headed “RISK FACTORS”).
- Please note that the figures in the sub-section headed “Numerical Illustration” in the section headed “Appendix 1” are for indication only and that past performance should not be taken as an indication of future performance. Investment return may fluctuate. The annual declared rate will be announced by Sun Life normally on or around 31 December each year or on such other date as determined by Sun Life from time to time. The Member must remain as a Member of the Plan and the contributions must be retained in the Capital Guarantee Fund until the end of the immediate preceding fiscal year ended on 30 September to be entitled to the annual declared rate of return on the entitlement. Should a Member cease to be a member of the Plan prior to the cut-off day on 30 September, the pro-rated interim declared rate of return will apply for determining the Member’s investment return on the entitlement for the relevant period.
- The declared return from the Capital Guarantee Fund will be credited to the Capital Guarantee (CG) Account on each Review Date or the date of termination of the Plan, whichever is earlier.

**Important: If you are in doubt about the contents of this Explanatory Memorandum, you should seek independent professional financial advice.**

Sun Life accepts responsibility for the accuracy of the information contained in this Explanatory Memorandum as at the date of publication and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission would make any statement misleading. This Explanatory Memorandum may from time to time be updated. You should enquire with Sun Life for the latest Explanatory Memorandum or any supplements or addenda to this Explanatory Memorandum which will be available from Sun Life.

The Plan has been authorized by the SFC. SFC authorization is not a recommendation or endorsement of the Plan nor does it guarantee the commercial merits of the Plan or its performance. It does not mean the Plan is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.

No action has been taken to permit an offering of the Plan or distribution of this Explanatory Memorandum in any jurisdiction other than Hong Kong 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 authorized. Further, the Plan may not be offered or sold, directly or indirectly, to any persons for reoffering or resale, in any jurisdiction where such action is not authorized. Receipt of this Explanatory Memorandum does not constitute an offer of the Plan in those jurisdictions in which it is illegal to make such an offer.

Sun Life Hong Kong Limited (incorporated in Bermuda with a limited liability)

30 November 2022

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## DEFINITIONS:

<b>"AEOI"</b>	automatic exchange of financial account information implemented under the IRO
<b>"Business Day"</b>	a day (other than Saturday) on which banks in Hong Kong are open for normal banking business
<b>"CAA"</b>	a competent authority agreement entered into by Hong Kong with the relevant jurisdiction for AEOI
<b>"Capital Guarantee (CG) Account"</b>	an account maintained by Sun Life pursuant to the Policy for the purpose of holding investment in the Capital Guarantee Fund
<b>"Capital Guarantee Fund"</b>	a notional account maintained by the Company to provide benefits to Members of the Scheme pursuant to the Plan. For the avoidance of doubt, Capital Guarantee Fund is not unitized.
<b>"Commencement Date"</b>	the date specified on the Policy as the commencement date of the Plan
<b>"FATCA"</b>	the Foreign Account Tax Compliance Act enacted by the US in March 2010
<b>"Hong Kong"</b>	the Hong Kong Special Administrative Region of the People's Republic of China
<b>"Hong Kong IGA"</b>	the intergovernmental agreement entered into between Hong Kong and the US for implementation of FATCA
<b>"Hong Kong IRD"</b>	Hong Kong Inland Revenue Department
<b>"IA"</b>	the Insurance Authority of Hong Kong
<b>"IO"</b>	the Insurance Ordinance (Cap.41 of the Laws of Hong Kong), as amended from time to time together with any regulations and rules made thereunder
<b>"IRO"</b>	the Inland Revenue Ordinance (Cap. 112 of the Laws of Hong Kong), as amended from time to time together with any regulations and rules made thereunder
<b>"Member"</b>	an employee or a former employee who has met the eligibility requirements to participate in the Plan and whose membership has not been terminated under the Policy
<b>"MPF Exemption Regulation"</b>	the Mandatory Provident Fund Schemes (Exemption) Regulation
<b>"Net Investment Contribution"</b>	contributions received in a Plan Year, less the registration charge and the administration charge if they are elected by the employer to be deducted from the employer's contribution
<b>"ORSO"</b>	the Occupational Retirement Scheme Ordinance (Cap.426 of the Laws of Hong Kong), as amended from time to time together with any regulations and rules made thereunder
<b>"Past Service Contribution"</b>	the amount (if any) to be paid by the employer in respect of employees becoming Members of the Plan on the Commencement Date as determined pursuant to the Policy
<b>"Plan"</b>	the Sun Life Capital Guarantee Plan
<b>"Plan Year"</b>	a period of twelve months from the Commencement Date and thereafter each period of twelve months from the Review Date
<b>"Policy"</b>	an insurance policy, namely, the Sun Life Capital Guarantee Policy, to be entered between the employer and Sun Life, together with the schedules, as amended from time to time
<b>"PRF Code"</b>	Code on Pooled Retirement Funds issued by the SFC, as amended and supplemented from time to time
<b>"Registrar"</b>	the Registrar of Occupational Retirement Schemes appointed under the ORSO
<b>"Review Date"</b>	the date each year as specified in the Policy as the review date

<b>"Scheme"</b>	an occupational retirement scheme established by an employer
<b>"SFC"</b>	the Securities and Futures Commission of Hong Kong
<b>"SFO"</b>	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong), as amended from time to time together with any regulations and rules made thereunder
<b>"Sun Life" or the "Company"</b>	Sun Life Hong Kong Limited, a company incorporated in Bermuda with limited liability (and registered as a non-Hong Kong company in Hong Kong) whose registered office is at 16 <sup>th</sup> Floor Cheung Kei Center Tower A, No.18 Hung Luen Road, Hung Hom, Kowloon, Hong Kong
<b>"US"</b>	the United States of America
<b>"US IRS"</b>	the Internal Revenue Service of the United States of America
<b>"UT Code"</b>	Code on Unit Trusts and Mutual Funds issued by the SFC, as amended and supplemented from time to time

# 1 ABOUT SUN LIFE CAPITAL GUARANTEE PLAN

The Plan is a pooled retirement fund scheme established as an insurance policy issued by Sun Life.

The Plan was authorised on 13 July 1995<sup>1</sup> and the Capital Guarantee Fund was authorised on 1 April 2003<sup>2</sup>. The Plan and the Capital Guarantee Fund were established in Hong Kong.

The Plan provides security of a capital guarantee fund, together with exposure to capital appreciation on a regular basis via annual valuations of underlying asset values.

## 1.1 Application

The employer will need to complete the Scheme Profile and Application Form provided by Sun Life, sign it and return it to Sun Life at the following address together with other relevant information that Sun Life may require:

16th Floor Cheung Kei Center Tower A  
No. 18 Hung Luen Road  
Hungghom, Kowloon  
Hong Kong

The employer will also need to enter into the Policy with Sun Life which sets out the terms and conditions of the Plan.

## 1.2 Plan Features

### ELIGIBILITY

All employees in regular, permanent and full-time employment upon completion of probationary service (if any) and who are between the ages of 18 and 65 (inclusive) and who have been employed by the employer for at least 60 days under an employment contract, or on other terms as agreed with the employer, are eligible to join the Plan.

### RETIREMENT AGE

The retirement age will normally be 60 or 65 (or any other age as agreed with the employer) for all employees. Should the employee continue working beyond the normal retirement age, contributions shall continue to be made by the employee and the employer until actual retirement of the relevant employee.

### CONTRIBUTION RATE

The contribution rate as a percentage of an employee's basic monthly salary is typically 5% for both employer contribution and employee contribution. An employer may also agree to a greater contribution rate.

Contributions are remitted monthly by the employer by the due date as agreed with the employer in accordance with the rules as specified by the employer under the Plan to Sun Life in Hong Kong dollars or such other currency agreed with the employer. Subject to the terms of the Policy, there is no grace period or penalties for late payment of the contributions. However, the employer may be subject to contribution surcharge for late payment or financial penalties for outstanding contribution payments in accordance with the ORSO if the employer fails to comply with the legislative requirements.

The employer may also make a Past Service Contribution for an employee or transfer the whole of the existing fund assets to the Plan by way of a single lump sum or by installments over a certain period on terms to be agreed with Sun Life.

### INVESTMENT

Employers' and employees' contributions (including any Past Service Contribution and/or contribution as a result of transfer from existing fund assets to the Plan) will be credited to the Capital Guarantee (CG) Account and allocated to the Capital Guarantee Fund upon receipt of cleared funds by Sun Life. Subscription and redemption of investments will be made pursuant to sub-section 2.1 headed "SUBSCRIPTION AND REDEMPTION" under section 2 headed "INVESTMENT IN CAPITAL GUARANTEE FUND".

For the avoidance of doubt, while the benefit payments under the Plan are calculated with reference to the performance of the Capital Guarantee Fund, employers and employees are not investing in the Capital Guarantee Fund and do not have any rights or ownership over the Capital Guarantee Fund or its underlying assets. The Capital Guarantee Fund and its underlying assets are legally and beneficially owned by Sun Life. Employers and employees only have a contractual right to claim the

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<sup>1</sup> The Plan has been established as of this date.

<sup>2</sup> The Capital Guarantee Fund has been established as of this date.

amount representing the benefits under the Plan from Sun Life. Any investment in the Plan is subject to the credit risks of Sun Life.

### **1.3 Benefits**

#### *Benefits payable upon normal retirement*

The benefit payable upon normal retirement will comprise of the value of the employee's account attributable to (i) contributions from the employer and employee credited to the Capital Guarantee (CG) Account and any interest earned from the Capital Guarantee Fund and accrued to such contributions (please refer to Appendix 1 for the mechanism for determining the interest rate), and (ii) any uninvested cash from time to time held in an account for each employee. The realized balance in the employee's account will be paid upon normal retirement of the employee in a lump sum by Sun Life.

#### *Benefits payable upon leaving service before normal retirement*

Where an employee leaves employment of the employer prior to the normal retirement age for reasons other than death or incapacity (as certified by a registered medical practitioner), the benefit payable will comprise of the value of the employee's account attributable to (i) all the employee's contributions and any investment return and interest earned (if applicable) thereon, (ii) a percentage of any sum with interest (if applicable) representing the Past Service Contributions and any investment return thereon, and (iii) a percentage of any sum with interest (if applicable) representing the employer's contributions and any investment return thereon. The percentage of employer's contributions (other than Past Service Contributions) and the percentage of Past Service Contributions for employees leaving employment other than on death or incapacity shall be determined in accordance with the vesting schedules as determined and specified by the employer under the Plan.

For employees who joined the Plan after 1 December 2000 with an employer who has been granted an exemption certificate under the MPF Exemption Regulation, the benefits of that employee upon termination of employment will be dealt with in accordance with the MPF Exemption Regulation. For example, the minimum MPF benefits of that employee, as defined in the MPF Exemption Regulation, will have to be preserved until retirement.

#### *Benefits payable upon death or incapacity*

Upon death or incapacity (as certified by a registered medical practitioner) prior to retirement of the employee, the realized balance in the employee's account to be determined in the same manner as in the case of normal retirement will be paid in a lump sum by Sun Life to the person(s) nominated by the employee in writing to Sun Life or the employee's legal personal representatives if no nomination has been made by the employee.

#### *Forfeiture of benefits*

If an employee is dismissed upon any of the following grounds, he / she will not be entitled to any part of the employer's contribution (including any Past Service Contribution) or any investment return and interest earned (if applicable) thereon:

- (a) wilfully disobeying a lawful and reasonable order;
- (b) misconduct, such conduct being inconsistent with the due and faithful discharge of his/her duties;
- (c) being guilty of fraud or dishonesty;
- (d) being habitually neglectful in his/her duties; or
- (e) upon any other ground on which the employer would be entitled to terminate the contract of employment without notice at common law.

The right of any person to receive any benefit or payment under the Plan shall be forfeited in the event that such benefit or payment is not claimed within six years from the date on which it became due.

#### *Liens on benefits*

The employer may be paid from the benefit payable to an employee the amount of debt acknowledged in writing by the employee as owing to the employer. Upon production of such written acknowledgment to Sun Life, Sun Life will pay to the relevant employer such part of benefit due to be paid to the employee under the Plan for the purpose of effective repayment of such debt. Any payment so made by Sun Life shall discharge all liabilities of Sun Life in respect of such part of the benefit payable to such employee.

#### *Forfeited contributions*

The forfeited contributions, i.e. those contributions which are not paid out to an employee as benefit under the Plan (other than as liens on such benefits), due to the employee's termination or dismissal of employment, may be used to offset the employer's future contributions or for other purposes as agreed by the employer and Sun Life.

## 2 INVESTMENT IN CAPITAL GUARANTEE FUND

### 2.1 SUBSCRIPTION AND REDEMPTION

Employers' and employees' contributions (including any Past Service Contribution and/or contribution as a result of transfer from existing fund assets to the Plan) will be credited to the Capital Guarantee (CG) Account and allocated to the Capital Guarantee Fund upon receipt of cleared funds by Sun Life.

Subscriptions will be made on each Business Day on which the Capital Guarantee Fund is open for subscription, following receipt of cleared funds and verification of the relevant documents as required by Sun Life.

Upon cessation of employment, redemption of the Capital Guarantee Fund will be made on a Business Day on which the Capital Guarantee Fund is open for redemption, following verification of the relevant documents as required by Sun Life.

### 2.2 VALUATION AND PRICING

The assets of the Capital Guarantee Fund are valued on the last Business Day of each calendar month by Sun Life in accordance with the prevailing generally accepted accounting practices.

The annual declared rate of return of the Capital Guarantee Fund is based on the yield earned as at the end of its fiscal year ending on September 30 each year, net of all relevant taxes but including realized and unrealized gains and adjustments to smooth market fluctuations and to provide for the investment guarantee. When determining the yield earned, Sun Life will use the market value of the investments held except in the case where the securities are intended to be held to maturity, if any, in which case the amortized value of such securities will be employed.

Members may obtain the value of their holdings in the Capital Guarantee Fund either through the Member's logon to the website at [www.sunlife.com.hk](http://www.sunlife.com.hk) or upon request to Sun Life.

The abovementioned website has not been reviewed or authorised by the SFC.

## 3 RISK FACTORS

**Investment involves risk and losses may be sustained on any investment. Past performance should not be taken as an indication of future performance.**

There is no assurance that the investment objective of the Capital Guarantee Fund will be achieved. Some of the risks to which the Capital Guarantee Fund may be exposed are set out below.

#### *General Investment Risk*

The investment returns of the Capital Guarantee Fund will be affected by market fluctuations, liquidity risk, interest rate risk, currency risk, and economic and social risks. Further, such risk factors may affect Sun Life as the guarantor, as well as the value of underlying assets of the Capital Guarantee Fund. Hence the declared rate of return and the interim declared rate of return which will be determined entirely by Sun Life may also be affected. Sun Life may declare zero rate of return at the end of its fiscal year. The guarantee of the Capital Guarantee Fund will lapse after ten years from the Commencement Date of the relevant Plan, unless Sun Life decides otherwise.

#### *Limited Duration of the Guarantee*

The guarantee that the declared rate of return and the interim declared rate of return will not be less than zero is only applicable for the first ten years from the Commencement Date of the relevant Plan. After the ten years period, the guarantee will lapse and the return will depend on the actual investment gains or losses of the Capital Guarantee Fund, and therefore may be positive or negative.

#### *Credit risk of Sun Life*



Investors are not investing in the Capital Guarantee Fund and do not have any rights or ownership over the Capital Guarantee Fund or its underlying assets. The Capital Guarantee Fund and its underlying assets are legally and beneficially owned by Sun Life. Investors only have a contractual right to claim the amount representing the benefits under the Plan from Sun Life.

The guarantee of the Capital Guarantee Fund is also provided by Sun Life. Investments in the Plan are therefore subject to the credit risks of Sun Life.

#### *Credit / counterparty risk*

The Capital Guarantee Fund is exposed to the credit/default risk of issuers of debt securities that the Capital Guarantee Fund may invest in.

#### *Interest rate risk*

The Capital Guarantee Fund is subject to interest rate risk. In general, the prices of debt securities rise when interest rates fall, whilst their prices fall when interest rates rise.

#### *Downgrading risk*

The credit rating of a debt instrument or its issuer may subsequently be downgraded. In the event of such downgrading, the value of the Capital Guarantee Fund may be adversely affected.

#### *Credit rating risk*

Credit ratings assigned by rating agencies are subject to limitations and do not guarantee the creditworthiness of the security and/or issuer at all times.

#### *Equity market risk*

The Capital Guarantee Fund may invest in equity securities which are subject to general market risks, whose value may fluctuate due to various factors, such as changes in investment sentiment, political and economic conditions and issuer-specific factors.

#### *Regulatory risk*

Investments may be affected by changes to the rules and regulations governing exchange controls or taxation, including withholding tax, and by changes to economic or monetary policies.

#### *Risks of investing in other collective investment schemes*

The Capital Guarantee Fund's investment in other collective investment schemes will be subject to the risks associated with the underlying collective investment schemes. The Capital Guarantee Fund does not have control of the investments of the underlying collective investment schemes and there is no assurance that the investment objective and strategy of the underlying collective investment schemes will be successfully achieved which may have a negative impact to the investment return of the Capital Guarantee Fund.

The underlying collective investment schemes in which the Capital Guarantee Fund may invest may not be regulated by the SFC. There may be additional costs involved when investing into these underlying collective investment schemes which may have a negative impact to the investment return of the Capital Guarantee Fund. Notwithstanding the above, the Capital Guarantee Fund's investment in other collective investment schemes will comply with the applicable investment restrictions in the Code on Pooled Retirement Funds (as amended from time to time) issued by the SFC.

#### *Inflation risk*

The cost of living in the future may be higher than now due to the effects of inflation. Therefore, the benefits under the Capital Guarantee Fund may not be sufficient for increasing protection needs in the future even if Sun Life fulfills all of the contractual obligations.

### *Liquidity risk*

The Capital Guarantee Fund may not be able to easily sell securities due to adverse market conditions or reduced value or creditworthiness of issuers in which it invests. The inability of the Capital Guarantee Fund to sell securities or positions may also impede its ability to pay benefits in a timely manner. Certain securities may also be illiquid due to limited trading markets or contractual restrictions on their resale. Reduced liquidity due to these factors may have an adverse impact on the value of the Capital Guarantee Fund.

### *Custodial risk*

Custodians or sub-custodians may be appointed in local markets for the purpose of safekeeping assets in those markets. Where the Capital Guarantee Fund invests in markets where custodial and/or settlement systems are not fully developed, the assets of the Capital Guarantee Fund may be exposed to custodial risk. In case of liquidation, bankruptcy or insolvency of a custodian or sub-custodian, the funds may take a longer time to recover their assets. In extreme circumstances, such as the retroactive application of legislation and fraud or improper registration of title, the Capital Guarantee Fund may even be unable to recover all of its assets, and this may have adverse impact on the Capital Guarantee Fund. The costs borne by the Capital Guarantee Fund in investing and holding investments in such markets will be generally higher than in organised securities markets.

### *Other risk factors*

Investment in the Plan is not equivalent to placing funds on deposit with a bank or deposit taking company. Investments in the Plan should be regarded as a medium to long-term investment.

## 4 ROLE OF SUN LIFE & OTHER OPERATORS

As a leading financial services company, Sun Life Hong Kong Limited offers a comprehensive range of life insurance, mandatory provident fund and pension plans and other financial products and services to individuals and corporate customers.

At Sun Life, we are committed to serving the workforce in Hong Kong by providing diverse financial solutions for their retirement. To accomplish this long term goal, we offer our customers flexible and effective employee benefits solutions through one-stop services on pension scheme management, including trustee, administration and investment management.

Registered address of Sun Life:

16th Floor Cheung Kei Center Tower A,

No. 18 Hung Luen Road, Hunghom,

Kowloon, Hong Kong

### 4.1 Insurer and Product Provider

Sun Life is the insurer of the Policy establishing the Plan. Sun Life is also the product provider for the purposes under the PRF Code.

Sun Life is responsible for the safekeeping of the underlying assets of the Plan. Please note that the Plan is constituted in the form of an insurance policy. While the benefit payments under the Plan are calculated with reference to the performance of the Capital Guarantee Fund, you are not investing in the Capital Guarantee Fund and do not have any rights or ownership over the Capital Guarantee Fund or its underlying assets. The Capital Guarantee Fund and its underlying assets are legally and beneficially owned by Sun Life. You only have a contractual right to claim the amount representing the benefits under the Plan from Sun Life. Your investment in the Plan is therefore subject to the credit risks of Sun Life.

As an insurer and product provider, Sun Life will carry out its obligations as provided under the Policy and the PRF Code.

### 4.2 Administrator

Sun Life maintains separate accounts to record the contributions made by the employer and the employees, respectively. In addition, Sun Life also provides the following administration services including:

- (i) scheme design and / or the review of benefits levels;
- (ii) registration of the Plan under the ORSO;
- (iii) maintenance of a register of ORSO schemes which participates in the Plan;
- (iv) maintenance of a membership register to record and reflect the level of benefits, account balances and employer and employee contributions;
- (v) provisions of administration documents and records for employer and employees such as the applications for membership, membership certificates, an annual statement showing the transactions which have occurred in a summary form; and
- (vi) calculation and arrangement for payment of benefits pursuant to the terms of the Plan and levels of insurance (if any) on each Review Date.

## 5 CHARGES

### 5.1 Charges at Plan Level

Unless otherwise agreed between Sun Life and the relevant employer, the fees and charges as set out below will apply to the relevant Plan.

#### Administration Charge

An annual administration fee of up to HK\$750\* and an annual membership fee of up to HK\$30\* per member based on the number of Members at the start of each Plan Year, subject to an overall minimum of HK\$1,000\* (such overall annual administration fee and annual membership fee shall be referred to as the "administration charge"), will be payable by the employer together with annual charges ("**Net Investment Contribution Charges**") calculated as a percentage of the amount of Net Investment Contributions according to the following scale:

Net Investment Contributions (HK\$)	Rate of charge (% p.a.)	
First 100,000*	up to 3.50	Plus
Next 100,000*	up to 3.00	Plus
Next 100,000*	up to 2.50	Plus
Next 100,000*	up to 2.00	Plus
Next 600,000*	up to 1.50	Plus
Next 1,000,000*	up to 1.00	Plus
Next 3,000,000*	up to 0.75	Plus
Excess	up to 0.40	

\* indicates "indexation" status applies, which means Sun Life may unilaterally increase the amount on 1st January in each of the following years, subject to the condition that Sun Life guarantees that the total percentage increase, if any, to the administration charge and the Net Investment Contribution Charges since the commencement of the Plan will not exceed the total percentage increase, if any, in the "Consumer Price Index (C)" published by the Census and Statistics Department of the government of Hong Kong during the same period.

Illustration: Assuming the Net Investment Contribution for a Plan on a Review Date is HK\$350,000, then the annual Net Investment Contribution Charges payable by the employer based on the above scale will be as follows –

$$\text{HK\$}100,000 \times 0.035 + \text{HK\$}100,000 \times 0.030 + \text{HK\$}100,000 \times 0.025 + \text{HK\$}50,000 \times 0.020 = \text{HK\$}10,000$$

#### Registration Charges

An initial charge of up to HK\$1,600 will be payable by the employer to cover the charges incurred by Sun Life in relation to handling the registration of the Scheme, unless otherwise agreed with Sun Life.

The annual charge for registration of the Scheme under ORSO payable to the Registrar pursuant to the schedule to the Occupational Retirement Schemes (Fees) Rules (currently HK\$1,800) and all other charges that may be imposed thereunder will be borne directly by the employer and paid to Sun Life for forwarding to the Registrar.

#### Insurance Levy

Effective from 1 January 2018, an insurance levy on the Policy shall be payable to the IA pursuant to the Insurance (Levy) Regulation, Chapter 411 of the laws of Hong Kong. The insurance levy is a percentage of the premium payable under the Policy, with a cap applied per policy per policy year. The insurance levy payable at the Plan level will be collected by Sun Life when the premium is paid. Sun Life will then remit the insurance levy to the IA.

#### Termination Charge

In the event that the Plan is terminated by the employer within five years from the Commencement Date, a termination charge expressed as a percentage of the Capital Guarantee (CG) Account of the relevant Plan as at the effective date of termination will be levied as follows:

Year of Termination (from Commencement Date)	Termination Charge (%)
1	up to 5

2	up to 4
3	up to 3
4	up to 2
5	up to 1
6 or over	0

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*Past Services Contributions and Transfer of Existing Fund Assets*

No charges shall apply in respect of an employer making Past Service Contributions or for transferring existing fund assets to Sun Life. This is irrespective of whether the payment or transfer is made in a single lump sum or by installments over a certain period to be agreed in writing with Sun Life.

Please refer to Appendix 2 for a summary of the fees and charges imposed at the Plan level.

**5.2 Payment of Charges**

All applicable charges at the Plan level payable by the employer to Sun Life, on the Commencement Date or on each Review Date, shall be paid either directly by the employer to Sun Life or deducted from the Capital Guarantee (CG) Account attributable to the employer’s contributions, as specified by the employer and notified to Sun Life from time to time, at the option of the employer.

## **6 GENERAL INFORMATION**

### **6.1 Benefit Request**

The employer should make a request for payment of benefit in respect of any Member who becomes eligible for benefit by completing an Employee Termination Advice Form and sending it to Sun Life, or otherwise complying with such requirements as may be specified by Sun Life from time to time subject to the ORSO.

Provided that the terms of the Policy establishing the Plan have been complied with and all contributions have been paid up to date, Sun Life will pay the relevant benefit within a month of receipt of the duly completed request and all documentation that it may reasonably require to verify and confirm the entitlement of the Member or such nominated person or such legal personal representatives to such benefit and in accordance with and in such manner as is required by the rules established under the ORSO and the PRF Code. Interest reflecting the prevailing annual declared rate of return or the interim declared rate of return will be paid on the benefit attributable to investment in the Capital Guarantee Fund from the date such benefit becomes payable to the actual payment date.

Benefits will be paid in Hong Kong dollars or subject to Sun Life's approval, in other currency at the prevailing market rate. Benefits will be paid at the recipient's risk by cheque unless otherwise agreed between Sun Life and the relevant recipient. Bank charges (if any) incurred in making payment will be borne by the relevant recipient and accordingly, will be deducted from the amount of the benefits.

For further details on the mechanism for determining the rate of return applicable, please refer to Appendix I of this Explanatory Memorandum.

### **6.2 Alteration**

Subject to compliance with applicable legal and regulatory requirements, the employer reserves the right to change, modify, suspend or terminate the Plan provided that registration of the Plan under the ORSO is not prejudiced or cancelled.

Any scheme change will be subject to at least one month's prior written notice (or such shorter period as agreed with the SFC or permitted under the PRF Code) to employers and Members of the Plan and to the prior approval by the SFC (if required).

### **6.3 Change in Fees and Charges**

Any increase in the fees and charges at the Plan level (except for adjustment to the administration charge as a result of indexation to reflect inflation) will be subject to one month's prior written notice (or such shorter period as agreed with the SFC or permitted under the PRF Code) to employers and Members of the Plan and to the prior approval by the SFC (if required).

### **6.4 Termination of the Policy or the Policy Ceasing to Apply to the Plan**

Either Sun Life or the employer may terminate the Policy or cause the Policy to cease to apply to the Plan provided:

- (a) three months' prior written notice is given by either party to the other, and
- (b) such termination has received the written consent of the Registrar.

In addition, if the employer ceases or fails to make any or all contributions to Sun Life in accordance with the rules of the Plan, Sun Life may notify the Registrar, and may terminate the Policy or cause the Policy to cease to apply to the Plan on written notice to the employer upon receipt of the written consent of the Registrar.

When the Policy ceases to apply to the Plan, Sun Life shall pay the amount of the Capital Guarantee (CG) Account calculated as at the date of the termination. The proceeds can be paid in one lump sum or, at the discretion of Sun Life, in two installments, such lump sum or the first such installment, to be paid within three months of cessation and the remainder of such installment, if relevant, to be paid six months after payment of the first installment, to a named authorized insurer or trustee for the purposes of the Plan.

In cases where the Policy is terminated because the Plan is terminated by the employer, benefits of Members will be calculated and paid as if those Members were leaving employment on the date of termination.

### **6.5 Unclaimed Proceeds**

During the termination process of the Policy or the Plan, any unclaimed proceeds may at any time after the expiration of twelve months from the date upon which the same were payable be paid into court subject to the right of Sun Life to deduct therefrom any expenses it may incur in making such payment.

## 6.6 Statement of Accounts

Sun Life will provide a statement of the Capital Guarantee (CG) Account to the employer on each Review Date. The relevant statement will detail the respective opening and closing value of the Capital Guarantee (CG) Account together with a summary of relevant transactions made during the relevant year, the amount of contributions made and such other information as is required under ORSO.

Sun Life will also provide a statement of accounts to each employee setting out the balance held in the Capital Guarantee (CG) Account on each Review Date together with a summary of relevant transactions made during the relevant year, the amount of contributions made and such other information as is required under ORSO.

## 6.7 Governing Law

The Plan shall be governed by and construed in accordance with the laws of Hong Kong. Employers and Members have a right to bring a legal action in the Hong Kong courts as well as in any court which has a relevant connection with the Plan.

## 6.8 Conflict of Interest

Sun Life or its connected persons may act as the product provider or investment manager of investment funds in which the Capital Guarantee Fund invests and receive a management fee in respect thereof. Where the Capital Guarantee Fund invests in an investment fund managed or distributed by Sun Life or its connected persons, all initial charges of the underlying investment fund must be waived but, recurrent management fees and charges may be levied proportionately to the amount invested by the Capital Guarantee Fund.

All transactions between the Plan and Sun Life or any of its connected persons as principal must be executed at arm's length on normal commercial terms and in best interests of the employers and Members.

## 6.9 Rebate and soft dollars

Sun Life currently does not have any rebate or soft commission arrangement in respect of the Plan.

Neither Sun Life nor any of its connected persons or delegates may retain cash or other rebates from a broker or dealer in consideration of directing transactions in the investment of the Plan to such broker or dealer, save that goods and services (soft dollars) may be retained if:

- (a) the goods or services to be provided pursuant thereto are of demonstrable benefit to the Members of the Plan;
- (b) the transaction executed is consistent with best execution standards and brokerage rates are not in excess of customary institutional full-service brokerage rates;
- (c) adequate prior disclosure is made in the Explanatory Memorandum of the Plan; and
- (d) the availability of soft dollar arrangements is not the sole or primary purpose to perform or arrange transactions with such broker or dealer.

For the avoidance of doubt, goods and services include research and advisory services, economic and political analysis, portfolio analysis (including valuation and performance measurement), market analysis, data and quotation services, computer hardware and software incidental to the above goods and services, clearing and custodian services and investment-related publications. Such goods and services may not include travel, accommodation, entertainment, general administrative goods or services, general office equipment or premises, membership fees, employee salaries, or direct money payments.

## 6.10 Taxation

A retirement scheme registered under ORSO will have the following tax consequences:

### 6.10.1 For the Employee

The employee is not liable to salaries tax on sums payable under the Plan upon death, incapacity, retirement, or **terminal illness** (as defined in the IRO). In addition, this exemption applies on termination of service with the relevant employer, **the lesser of the amount received or such amount, capped at 15% of the employees' income from employment** multiplied by the number of completed months' of service with the employer divided by 120. However, this

exemption does not apply if an employer terminates a scheme and pays out benefit to the Members without terminating their services and permanent departure from Hong Kong but without terminating service.

The employer's contributions to ORSO scheme are not taxable on the employee. For salary tax purposes, where an employee is a member of an MPF-exempted ORSO scheme, contributions by an employee are tax deductible, but subject to the permitted maximum limit, being HK\$18,000 per year for the year of assessment 2021/22 and each subsequent year of assessment.

#### 6.10.2 For the Employer

The employer's normal contributions to a registered scheme may be deducted for profits tax purposes to the extent that they do not exceed 15% of the employee's total income from employment. Excess contributions are not tax deductible. The normal tests laid down for deductibility of expenses will apply.

The employer is also given relief for special contributions made to a registered retirement scheme, spread over five annual installments. If the special contributions are themselves made in installments, one-fifth of each installment is allowed annually.

#### 6.10.3 For the Plan

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

The above information is provided for guidance only on the basis of Hong Kong law in force at the date of this Explanatory Memorandum. Employers and Members should appreciate that as a result of changing law or practice, the taxation consequences of participating in the Plan may change. The above is not intended to be comprehensive and should not be relied upon as a substitute for detailed and specific advice. Employees and Members should seek professional advice regarding their own particular tax circumstances.

### 6.11 Foreign Account Tax Compliance Act

The US has introduced the FATCA provisions under the US Hiring Incentives to Restore Employment Act in 2010 to address potential tax evasion by certain US persons holding financial assets and accounts via non-US (i.e., foreign) entities. Unless the Plan and/or the Scheme qualifies for exemption or deemed-compliant status under the FATCA provisions and/or applicable intergovernmental agreement with the US, FATCA provides that US withholding tax will be imposed on certain US payments constituting "withholdable payments" (and, according to presently available guidance, the withholding will also apply to gross proceeds of the disposal of an asset which produces certain withholdable payments and potentially to payments treated under FATCA as "foreign passthru payments") received by the Plan and/or the Scheme (where applicable) unless the Plan or the Scheme (where applicable), respectively, agrees to be subject to the terms of an agreement with the US IRS to, among others, identify, document and disclose the name, address, US taxpayer identification number of certain Members that are US persons that own, directly or indirectly, an interest in the Plan or the Scheme (where applicable), as well as other information relating to any such interest. Certain undocumented or non-compliant Members in the Plan or the Scheme may also be subject to reporting to the US IRS.

The Hong Kong government has entered into a Hong Kong IGA with the US to facilitate the implementation of FATCA. Each of the Plan and the Scheme (where applicable) will be subject to a Hong Kong IGA and, therefore, they would be obligated to perform certain obligations, including the implementation of prescribed due diligence procedures to identify and report certain U.S. accounts and certain other account information to the US IRS.

To ensure compliance with FATCA, the Plan and the Scheme (if applicable) have already registered with the US IRS as of the date of this Explanatory Memorandum. To the extent that a Scheme does not qualify for one or more of the exemptions or certified deemed-compliant status under the Hong Kong IGA, such Scheme should register with the US IRS.

In view of the above, employers and Members may be required to provide certain information as required under FATCA and/or Hong Kong IGA to the Plan, the Scheme (where applicable) and/or Sun Life, including self-certification and/or other documents to establish their FATCA status as well as consents to the reporting of relevant information to the US IRS, if applicable. Requests for such information and/or documents will be made with a view to complying with the relevant FATCA and/or Hong Kong IGA requirements. Further requests may be made when there is any change in circumstances that would affect an employer or Member's FATCA status or when there is reason for the Plan, the Scheme (where applicable) and/or Sun Life to know that the information and/or documents previously provided require updates and/or clarification. The employers and Members should agree to the provision of additional information upon request by the Plan, the Scheme (where applicable) and/or Sun Life and consent to the disclosure of collected information to the local or overseas governments, regulatory and/or taxation authorities and counterparties under applicable laws, regulations and/or intergovernmental agreements. In addition, the employers and Members agree to inform the Plan, the Scheme and/or Sun Life of any change in circumstances (including changes that may affect the FATCA status of the employers or Members) or to information provided such as name, address, US taxpayer identification number within 30 days of the relevant change.



Each of the Plan and the Scheme (where applicable) will attempt to satisfy any obligations imposed on it under FATCA and/or Hong Kong IGA to avoid the imposition of withholding tax. The ability of the Plan and/or the Scheme (where applicable) to satisfy the obligations under FATCA and/or Hong Kong IGA may depend on employers and Members providing the Plan, the Scheme (where applicable) and/or Sun Life with any information, including information concerning certain direct or indirect owners of the employer, that the Plan, the Scheme (where applicable) and/or Sun Life determine that are necessary to satisfy such obligations. Failure by the employer or Member to comply with any of the said requests may result in reporting to the US IRS and possibly withholding to the employer or Member under FATCA or Hong Kong IGA. In addition, the Plan and/or the Scheme (where applicable) may suffer US withholding tax on the investments as a result of non-compliance and the value of the Plan and/or the Scheme (where applicable) may be adversely affected. Employers or Members should consult with their own tax advisor as to the potential impact of FATCA with respect to their own tax position.

## **6.12 Automatic Exchange of Financial Account Information**

The IRO came into force on 30 June 2016. This is the legislative framework for the implementation in Hong Kong of the AEOI. The AEOI requires financial institutions in Hong Kong to collect information relating to non-Hong Kong tax residents holding accounts with Hong Kong financial institutions, and exchange such information with the jurisdiction(s) in which that account holder is tax resident. Generally, tax information will be exchanged only with jurisdictions with which Hong Kong has a CAA; however, Sun Life, the Plan, the Scheme (where applicable) and/or their agents may further collect information relating to tax residents of other jurisdictions.

Sun Life, the Plan and the Scheme (where applicable) are required to comply with the requirements of AEOI as implemented by Hong Kong, which means that Sun Life, the Plan, the Scheme (where applicable) and/or its agents shall collect and provide to the Hong Kong IRD tax information relating to Members.

The AEOI rules as implemented by Hong Kong require Sun Life, the Plan, the Scheme (where applicable) to, amongst other things: (i) register as a "Reporting Financial Institution" with the Hong Kong IRD; (ii) conduct due diligence on its accounts (i.e., Members) to identify whether any such accounts are considered "Reportable Accounts" for AEOI purposes; and (iii) report to the Hong Kong IRD information on such Reportable Accounts. The Hong Kong IRD is expected on an annual basis to transmit the information reported to it to the government authorities of the relevant jurisdictions with which Hong Kong has signed a CAA. Broadly, AEOI contemplates that Hong Kong financial institutions should report on: (i) individuals or entities that are tax resident in a jurisdiction with which Hong Kong has signed a CAA; and (ii) certain entities controlled by individuals who are tax resident in such other jurisdiction. Under the IRO, details of Members, including but not limited to their name, date of birth, jurisdiction of birth, address, tax residence, taxpayers identification number, account details, account balance/value, and income or sale or redemption proceeds, may be reported to the Hong Kong IRD and subsequently exchanged with government authorities in the relevant jurisdictions of tax residence.

By participating in the Plan and the Scheme (where applicable), Members acknowledge that they may be required to provide additional information to Sun Life, the Plan, the Scheme (where applicable) and/or their agents in order for Sun Life, the Plan, the Scheme (where applicable) to comply with AEOI.

Each Member should consult its own professional advisor(s) on the administrative and substantive implications of AEOI on its current or proposed investment and participation in the Plan and the Scheme (where applicable).

## **6.13 Liquidity Risk Management**

Sun Life has established a liquidity management policy which enables it to identify, monitor and manage the liquidity risks of the Capital Guarantee Fund and to ensure that the liquidity profile of the investments of the Capital Guarantee Fund will facilitate compliance with the Plan's obligation to meet redemption requests. Such policy, combined with the liquidity management tool(s) that may be employed by Sun Life, also seeks to achieve fair treatment of Members and safeguard the interests of remaining Members in case of sizeable redemption.

Sun Life would regularly assess the liquidity profile of the Capital Guarantee Fund under the current and likely future market conditions, against the expected liquidity demands having regard to factors such as past withdrawal patterns.

As a liquidity management tool, the Capital Guarantee Fund may borrow up to 10% of its investment assets to address any short term funding needs arising from payments of large sums under the Plan or to lengthen the duration of fixed-income securities forming part of the investment assets of the Capital Guarantee Fund.

Employers and Members should note that there is a risk that the abovementioned tools may be ineffective to manage liquidity risks.

## **6.14 Enquiries**

Members may call or write to Sun Life for any enquiries in relation to the Plan:

Sun Life Hong Kong Limited  
16th Floor Cheung Kei Center Tower A  
No. 18 Hung Luen Road  
Hunghom, Kowloon  
Hong Kong

Enquiry hotline: +852 2929 3029

Sun Life will handle or channel to the relevant party any enquiries from Members and revert accordingly.

Members may access the website of Sun Life at [www.sunlife.com.hk](http://www.sunlife.com.hk) for further information on the Plan (including the latest Explanatory Memorandum, and notices). This website has not been reviewed or authorized by the SFC.

## **6.15 Documents for Inspection**

Copies of the following documents are available for inspection free of charge during normal working hours at Sun Life's registered office at 16th Floor Cheung Kei Center Tower A, No. 18 Hung Luen Road, Hunghom, Kowloon, Hong Kong:

- (a) Explanatory Memorandum of the Plan; and
- (b) template Policy.

Copies of the template Policy can be purchased from Sun Life on payment of a reasonable price.

A copy of the Explanatory Memorandum of the Plan is also available free of charge on the website of Sun Life, at [www.sunlife.com.hk](http://www.sunlife.com.hk).

## APPENDIX 1

Information regarding the Capital Guarantee Fund is set out below. Sun Life will, where practicable, give reasonable notice to employers and Members of any material change to this overview according to the applicable regulatory requirements.

Employer and Members should ensure that they fully understand the nature of and the risks associated with investments in the Capital Guarantee Fund and are strongly advised to seek independent financial and/or professional advice before making any investment decision.

### CAPITAL GUARANTEE FUND

The Capital Guarantee Fund is a notional account maintained by Sun Life for the purposes of determining the benefits to be provided to Members of the Plan pursuant to the Plan, whereby, subject to the guarantee further detailed below, the rate of return will be determined entirely at Sun Life's discretion. The Plan is an insurance policy issued by Sun Life that guarantees the declared rate of return and the interim declared rate of return every year during the period of ten years from the Commencement Date of this Plan shall be not less than 0% per annum on the total contributions made to the Capital Guarantee Fund, less any withdrawals and other applicable charges and fees. The annual declared rate will be announced on or around 31 December each year. The employer and employee contributions must be retained in the Capital Guarantee Fund until the end of the immediate preceding fiscal year ended on 30 September to be entitled to the annual declared rate of return on the entitlement subject to the applicable rules of the Plan; otherwise the interim declared rate of return shall be applied for determining investment return on the entitlement and credited to the Member's Capital Guarantee (CG) Account. The interim declared rate of return is declared prospectively with an objective to provide stable return during the year. Please also note that, should a Member cease to be a member of the Plan prior to the cut-off day on 30 September, the pro-rated interim declared rate of return will apply for determining the Member's investment return on the entitlement for the relevant period. The relevant interest amount or the declared return will be credited to the Capital Guarantee (CG) Account on each Review Date or the date of termination of the Plan, whichever is earlier. Such guarantee shall remain unchanged until the expiry of such period of ten years from the Commencement Date or the termination of the relevant Plan, whichever is the earlier. The guarantee is provided by Sun Life. Any investment in the Capital Guarantee Fund is subject to the credit risks of Sun Life. In case there is any shortfall, Sun Life will make up the difference for a period of ten years from the Commencement Date of this Plan.

Subject to this guarantee, the declared rate of return and the interim declared rate of return will be determined entirely at Sun Life's discretion, based on the yield earned on the investment, net of all relevant taxes but including realised and unrealised gains and adjustments made by the actuary to smooth market fluctuations and to provide for the abovementioned guarantee. The portion of the declared rate of return and/or the interim declared rate of return above 0%, if any, represents distribution of discretionary benefits by Sun Life to the Member. Please note that such discretionary benefits declared by Sun Life, if any, could be nominal, and are subject to investment risk and are not guaranteed. Moreover, Sun Life, at its sole discretion, has the right to retain investment income of the Capital Guarantee Fund in excess of that required to be set aside to meet the guaranteed benefits under the Capital Guarantee Fund, i.e. there may be a dilution of performance of the investment return of the Capital Guarantee Fund. Sun Life has the right to set aside additional smoothing reserve and such smoothing reserve would act as a buffer to absorb market fluctuations.

After ten years from the Commencement Date of the Plan, unless Sun Life decides otherwise, the guarantee will lapse. After that, the return will be determined based on the actual investment gains or losses of the Capital Guarantee Fund, and therefore may be positive or negative. The declared rate of return and the interim declared rate of return will no longer be applicable.

The Plan is an insurance scheme. Under the IO, Sun Life has to maintain a segregated fund supporting policies of this kind. Assets in the fund are legally and beneficially owned by Sun Life but are kept separately from other funds held by Sun Life. The policyholder only has a contractual right to claim the amount representing the fund balance from Sun Life. Your investment in Capital Guarantee Fund is therefore subject to the credit risks of Sun Life.

#### (a) Investment Objective and Restrictions

In order to deliver the abovementioned "capital guarantee" and to generate a stable income stream for any Plan participants, not less than two-thirds of the sums held in the Capital Guarantee Fund will be invested in high quality worldwide fixed-income securities (quoted or unquoted) with credit ratings issued by Standard and Poor's or Moody's or any other equivalent reputable rating agency of "A" or above. The balance of the sums held in the Capital Guarantee Fund may be invested in worldwide blue-chip securities and other assets either through direct investment or through collective investment schemes which may or may not be authorized by the SFC, subject to the restrictions laid down in the Policy. Subject to compliance with applicable legal and regulatory requirements (including the prior notice requirement, if applicable) and the prior written consent of the relevant employer or trustee (where applicable), the investment strategy may be changed from time to time by Sun Life on written notice sent to the employers and Members before implementation of any such change.

Sun Life will adopt an asset allocation strategy focusing on the quality of assets rather than geographical distribution of the investments. The Capital Guarantee Fund is compliant with Section 27 of the ORSO requirements and the MPF Exemption Regulation.

The investment and borrowing restrictions of the MPF Exemption Regulation shall apply in respect of the Capital Guarantee Fund and in particular:

- No more than 15% of the investment assets will be invested in precious metals, commodities, real estate, warrants, futures contracts, options, bonds rated below "A" by Standard and Poor's or Moody's or any other equivalent reputable rating agency and rights and other interest in these assets.
- No moneys forming part of the investment assets of the Capital Guarantee Fund will be invested in the securities of, or lent to, Sun Life, any investment manager, guarantor or any of their connected persons except where any of these parties is a substantial financial institution or an insurance company. For the purpose of this restriction, the securities do not include interests in collective investment schemes, either authorized under section 104(1) of the SFO or recognized jurisdiction schemes pursuant to section 1.2 of the UT Code.
- No investment assets may be used to guarantee any loans.
  - Borrowing not exceeding 10% of the investment assets of the Capital Guarantee Fund may be made to address any short term funding needs arising from payments of large sums under the Plan or to lengthen the duration of fixed-income securities forming part of the investment assets of the Capital Guarantee Fund. For the avoidance of doubt, no lender will be registered as the owner of the investment assets of the Capital Guarantee Fund.
- No asset which assumes an unlimited liability may be acquired by any person of or on behalf of the Capital Guarantee Fund.

In addition, the Capital Guarantee Fund will comply with the applicable investment and borrowing restrictions under the PRF Code in particular, the requirements under Chapter 9 of the PRF Code.

(b) Base Currency

The base currency of Capital Guarantee Fund is Hong Kong Dollar.

(c) Illustration of the Guarantee Mechanism

Assumptions

- (1) Contributions being deposited at the beginning of each month equal to 10% of salary: 5% from the employee and 5% from the employer.
- (2) The annual salary increment is 8%.
- (3) The following contributions are net of all applicable charges.
- (4) The declared rate of return and the interim declared rate of return will be determined entirely at Sun Life's discretion and Sun Life may retain investment income of the Capital Guarantee Fund in excess of that required to be set aside to meet the guaranteed benefits under the Capital Guarantee Fund.
- (5) Interest is credited to the Capital Guarantee (CG) Account on the Review Date, being 30 September of each year.
- (6) Contributions, interests, deductions and entitlements are rounded to the nearest whole number for illustration purposes.
- (7) Plan commencement date: October 1, 2018
- (8) Employees' information:

Employee	Date Joined Plan	Starting Salary (per month)
A	October 1, 2018	HK\$10,000
B	October 1, 2022	HK\$10,000

The employee's entitlements are calculated in accordance with the following formulae:

Where the guarantee applies or the declared rate of return or the interim declared rate of return is positive:

Entitlement as at the end of each month = Entitlement as at the beginning of the month + Contribution for the month + Interest earned during the month

Where the guarantee lapses and the declared rate of return or the interim declared rate of return is negative:

Entitlement as at the end of each month = Entitlement as at the beginning of the month + Contribution for the month - Deductions made during the month

where:

Interest earned or deductions made during the month = (Entitlement as at the beginning of the month + Contribution for the month) x [(1 + Declared Rate)<sup>1/12</sup> - 1]

The employee's entitlement as shown in the following table refers to the projected entitlement as at the end of the relevant fiscal year.

Numerical Illustration

The following table shows the respective Plan balances for each of employees A and B.

Year	Interim Rate	Declared Rate	Employee A – Fund Balance (HK\$)				
			Contribution	Interim Interest/ Deduction	Entitlement before interest declaration	Additional Interest/ Deduction	Entitlement after interest declaration
1	1.5%	2.6%	12,000	97	<b>12,097</b>	71	<b>12,168</b>
2	1.5%	3.0%	12,960	288	<b>25,416</b>	287	<b>25,703</b>
3	1.5%	3.2%	13,997	499	<b>40,199</b>	565	<b>40,764</b>
4	1.5%	4.4%	15,117	734	<b>56,614</b>	1,418	<b>58,032</b>
5	1.5%	1.5%	16,326	1,003	<b>75,361</b>	0	<b>75,361</b>
6	0.0%	0.0%	17,632	0	<b>92,992</b>	0	<b>92,992</b>
7	0.0%	5.4%	19,042	0	<b>112,035</b>	5,574	<b>117,609</b>
8	0.0%	2.2%	20,566	0	<b>138,175</b>	2,832	<b>141,007</b>
9	0.0%	3.2%	22,211	0	<b>163,218</b>	4,895	<b>168,113</b>
10	0.0%	3.6%	23,988	0	<b>192,101</b>	6,517	<b>198,619</b>
11	1.0%	-3.0%	25,907	2,126	<b>226,652</b>	-8,508	<b>218,144</b>
12	1.0%	-2.5%	27,980	2,333	<b>248,457</b>	-8,167	<b>240,290</b>
13	1.0%	6.0%	30,218	2,566	<b>273,074</b>	12,824	<b>285,899</b>
14	1.0%	5.0%	32,635	3,035	<b>321,570</b>	12,137	<b>333,706</b>
15	1.0%	4.5%	35,246	3,528	<b>372,480</b>	12,342	<b>384,823</b>

Year	Interim Rate	Declared Rate	Employee B – Fund Balance (HK\$)				
			Contribution	Interim Interest/ Deduction	Entitlement before interest declaration	Additional Interest/ Deduction	Entitlement after interest declaration
1	1.5%	2.6%	0	0	<b>0</b>	0	<b>0</b>
2	1.5%	3.0%	0	0	<b>0</b>	0	<b>0</b>
3	1.5%	3.2%	0	0	<b>0</b>	0	<b>0</b>
4	1.5%	4.4%	0	0	<b>0</b>	0	<b>0</b>
5	1.5%	1.5%	12,000	97	<b>12,097</b>	0	<b>12,097</b>
6	0.0%	0.0%	12,960	0	<b>25,057</b>	0	<b>25,057</b>
7	0.0%	5.4%	13,997	0	<b>39,054</b>	1,759	<b>40,813</b>
8	0.0%	2.2%	15,117	0	<b>55,930</b>	1,077	<b>57,007</b>
9	0.0%	3.2%	16,326	0	<b>73,333</b>	2,106	<b>75,439</b>
10	0.0%	3.6%	17,632	0	<b>93,071</b>	3,058	<b>96,129</b>

11	1.0%	-3.0%	19,042	1,064	<b>116,235</b>	-4,259	<b>111,976</b>
12	1.0%	-2.5%	20,566	1,231	<b>133,773</b>	-4,310	<b>129,463</b>
13	1.0%	6.0%	22,211	1,415	<b>153,089</b>	7,068	<b>160,158</b>
14	1.0%	5.0%	23,988	1,731	<b>185,877</b>	6,921	<b>192,799</b>
15	1.0%	4.5%	25,907	2,068	<b>220,774</b>	7,235	<b>228,009</b>

# Interest payments or deductions are net of all applicable charges.

**Please note:**

- (i) "Interim Interest / Deduction" refers to the interest / deduction to which the Member's entitlement is subject calculated based on the interim declared rate of return for the relevant year.

"Entitlement before interest declaration" refers to the Member's entitlement after taking into account the "Interim Interest / Deduction" but prior to taking into account the "Additional Interest / Deduction".

"Additional Interest / Deduction" refers to further interest / deduction to which the Member's entitlement is subject calculated based on the difference between the declared rate of return and the interim declared rate of return for the relevant year.

"Entitlement after interest declaration" refers to the Member's entitlement after taking into account both the "Interim Interest / Deduction" and "Additional Interest / Deduction".

- (ii) The above declared rate and examples are for illustration only and serves only as an estimate of possible future values and benefits. The figures noted above are not necessarily indicative of the rate of return likely to be secured by investment in the Capital Guarantee Fund. The actual rate at which interest has been credited to the Capital Guarantee Fund for the past years are shown in the sub-section headed "Investment Performance" below. Investment involves risks and investment return may fluctuate.
- (iii) The above illustration represents an estimate of possible future values of Employees A and B's entitlement should both employees make no withdrawals from their respective accounts for the period depicted in the above illustration. Should a member withdraw from his/her account, the interest to which such member is entitled would be less than if the member had otherwise not withdrawn from his/her account, notwithstanding such interest amount would nevertheless be calculated in the same manner based on the declared rate of return and the interim declared rate of return (as the case may be) of the relevant year.
- (iv) The Member must remain as a Member of the Plan and the contributions must be retained in the Capital Guarantee Fund until the end of the immediate preceding fiscal year ended on 30 September to be entitled to the annual declared rate of return on the entitlement; otherwise, the interim declared rate of return will apply for determining the investment return on the entitlement. Should a Member cease to be a member of the Plan prior to the cut-off day on 30 September, the pro-rated interim declared rate of return will apply for determining the Member's investment return on the entitlement for the relevant period.

**Example 1** - Employee A ceases to be a Member of the Plan and the contributions are withdrawn from the Capital Guarantee Fund on 15 September 2022. The pro-rated interim declared rate of return (1.5%) will thus apply for determining the investment return for the relevant period in Year 4 and Employee A will be entitled to the amount of HK\$56,579.

Right before the interest rate declaration on 30 September 2022, the entitlement amount is projected to be HK\$56,614 as shown in the above numerical illustration. Right before the interest rate declaration on 30 August 2022, the entitlement amount is projected to be HK\$55,284 and the contribution in September is projected to be HK\$1,260. The difference between the foregoing figure in the numerical illustration (i.e. HK\$56,614) and the above entitlement of HK\$56,579 is the interim rate prorated for a half-month period (i.e.  $(\text{HK\$}55,284 + \text{HK\$}1,260) \times [(1 + 1.5\%)^{1/12} - 1]/2 = \text{HK\$}35$ ).

**Example 2** - Employee A ceases to be a Member of the Plan and the contributions are withdrawn from the Capital Guarantee Fund on 30 September 2022. The declared rate of return (4.4%) will thus apply for determining the investment return for Year 4 and Employee A will be entitled to the amount of HK\$58,032.

**Example 3** - Employee A ceases to be a Member of the Plan, no further contributions are made and the contributions are withdrawn from the Capital Guarantee Fund on 15 October 2022. The declared rate of return (4.4%) will thus apply for determining the investment return for Year 4 and the pro-rated interim declared rate of return (1.5%) will apply for the period between 1 October 2022 and 15 October 2022. Employee A will be entitled to the amount of HK\$58,068

Right after the interest rate declaration on 30 September 2022, the entitlement amount is projected to be HK\$58,032 as shown in the above numerical illustration. No further contribution is assumed to be made. The difference between the foregoing figure in the numerical illustration and the above entitlement of HK\$58,068 is the interim rate, prorated for a half-month period (i.e.  $58,032 \times [(1 + 1.5\%)^{1/12} - 1]/2 = \text{HK\$}36$ ).

- (v) The benefit payable to an employee for leaving service before normal retirement age will be determined according to the column headed "Entitlement", which equals the previous year's entitlement plus the current year's contributions plus interest earned. This Entitlement will be further adjusted accordingly to the applicable vesting percentage.
- (vi) Employee B joined four years after the commencement date of the Plan and consequently enjoyed only six years of guarantee offered by the Capital Guarantee Fund.
- (vii) At the end of Year 6, Sun Life declared a 0% interest rate to provide the guaranteed benefits notwithstanding the fact that the Capital Guarantee Fund may have suffered a loss with a negative investment return.
- (viii) After Year 10, the guarantee lapses unless Sun Life decides otherwise in its absolute discretion and the declared rate of return and the interim declared rate of return can drop below zero as shown in the above illustration.**

(d) Investment Performance

The Capital Guarantee Fund is denominated in Hong Kong dollars and the annual declared rates for the past five years are:

Year	Annual Declared Rate (from 1 October to 30 September)
2020/2021	1.5%
2019/2020	2.2%
2018/2019	2.2%
2017/2018	2.2%
2016/2017	2.4%

Source: Sun Life (in respect of annual declared rate for 2020/2021) and FWD Life Insurance Company (Bermuda) Ltd (the former insurer of the Capital Guarantee Fund) ("**FWD**") (in respect of annual declared rate for 2016/2017 to 2019/2020). Please refer to the fund fact sheet at <https://www.sunlife.com.hk/en/investments/mpf-and-orso-scheme/sun-life-capital-guarantee-plan/><sup>^</sup> for further detail, including the latest declared rate.

<sup>^</sup>This website has not been reviewed or authorized by the SFC.

Note: The above are historical rates declared by Sun Life and FWD in respect of the Capital Guarantee Fund for the past five years. Please note that **the declared rate is the actual rate at which interest has been credited to the Capital Guarantee Fund and that no deductions are made by Sun Life from such interest.** Please also note that the figures are for indication only and that past performance should not be taken as an indication of future performance. Investment return may fluctuate. The annual declared rate will be announced by Sun Life normally on or around 31 December each year or on such other date as determined by Sun Life from time to time. The Member must remain as a Member of the Plan and the contributions must be retained in the Capital Guarantee Fund until the end of the immediate preceding fiscal year ended on 30 September to be entitled to the annual declared rate of return; otherwise, the interim declared rate of return will apply for determining the investment return on the entitlement. Should a Member cease to be a member of the Plan prior to the cut-off day on 30 September, the pro-rated interim declared rate of return will apply for determining the Member's investment return on the entitlement for the relevant period.

The declared return will be credited to the Capital Guarantee (CG) Account on each Review Date or the date of termination of the Plan, whichever is earlier.

(e) Risk Factors

Please refer to section 3 of this Explanatory Memorandum headed "RISK FACTORS" for a description of the relevant risks.



## APPENDIX 2

### Cost Summary Table

Unless otherwise agreed between Sun Life and the relevant employer, the fees and charges as set out below will apply to the relevant Plan. -

#### PLAN LEVEL

Fees and Charges	Amount	Remarks
Administration Charge	Up to HK\$750 p.a. plus Up to HK\$30 per member p.a.	Subject to an overall minimum of HK\$1,000 Based on number of Members at the beginning of the Plan Year Indexation* status applies
Net Investment Contribution Charges	Up to 3.5% p.a. declining to up to 0.4% p.a. of the Net Investment Contribution	The percentage decreases as the Net Investment Contribution received in a Plan Year increases
Registration Charge	Up to HK\$1,600	Initial charge
ORSO Registration Charge	HK\$1,800 Annual charge	For scheme registered under ORSO, also other charges payable to the Registrar pursuant to the schedule to the Occupational Retirement Schemes (Fees) Rules may be imposed
Termination Charge (only applicable if termination initiated by employer)	Up to 5% decreasing to up to 1% of the Capital Guarantee (CG) Account depending on the policy year of termination	For the first five Plan Years
Insurance Levy	A percentage of the premium payable under the Policy, with a cap applied per policy per policy year.	The insurance levy payable at the Plan level will be collected by Sun Life when the premium is paid. Sun Life will then remit the insurance levy to the IA.

\* Sun Life may unilaterally increase the amount on 1st January in each of the following years, subject to the condition that Sun Life guarantees that the total percentage increase, if any, to the administration charge and the Net Investment Contribution Charges since the commencement of the Plan will not exceed the total percentage increase, if any, in the "Consumer Price Index (C)" published by the Census and Statistics Department of the government of Hong Kong during the same period.

The above Cost Summary Table is a summary of the fees and charges only. For details, please refer to Section 5 "Charges" above.

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