

**CMS Funds  
(the “Fund”)**

**CMS China Opportunities Flexifund  
CMS Hong Kong Multi Income Fund  
(each a “Sub-Fund”, collectively the “Sub-Funds”)**

**NOTICE TO UNITHOLDERS**

**This notice is important and requires your immediate attention. It contains information regarding changes to the Explanatory Memorandum of the Fund dated November 2018 (the “Explanatory Memorandum”). If you are in any doubt about the content of this notice, you should seek independent professional financial advice.**

All capitalized terms herein contained shall have the same meaning in this notice as in the Explanatory Memorandum, unless otherwise stated. CMS Asset Management (HK) Co., Limited, the manager of the Fund (the “**Manager**”), accepts full responsibility for the accuracy of the information contained in this notice 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 of which would make any statement misleading.

Dear Unitholders,

**1. Change in PRC Value-added Tax (“VAT”) Tax Provisioning of CMS China Opportunities Flexifund**

**1.1 VAT regulations**

On 23 March 2016, the Ministry of Finance (“MoF”) and the State Administration of Taxation (“SAT”) jointly released Circular Notice on Overall Implementation of Transforming Business Tax to VAT on a Pilot Basis (“Circular 36”) on the full transformation of Business Tax to VAT (the “B2V Reform”). Circular 36 took effect on 1 May 2016 and officially transforms the financial services industry from Business Tax to VAT.

On 30 August 2018, the PRC State Council announced a temporary 3-year exemption of PRC Withholding Income Tax and VAT on bond interest derived by foreign institutional investors. However, at the time this notice is prepared, there is lack of guidance regarding the counting of the 3-year period; and the tax treatment of bond interest prior to the 3-year period. It is expected that the PRC authorities would issue a circular to provide further details on the implementation.

Based on the interpretation of the relevant tax regulations and circulars upon seeking tax advice, interest income derived by the Sub-Funds from marketable securities in the PRC (except PRC government bonds or local government bonds) (“relevant bonds”) should be subject to VAT at the current rate of 6% plus local surcharges of up to 12% based on VAT paid from 1 May 2016. The Manager would revisit the VAT provisioning policy until further guidance is issued with respect to the application of the 3-year exemption period on bond interest income.

However, there is still lack of clear guidance on the VAT payment mechanism which is subject to further clarification by the PRC authorities.

**1.2 VAT provisions of the CMS China Opportunities Flexifund**

Previously up to 14 November 2018, the Sub-Fund have not made any VAT provisions for interest income derived from relevant bonds held by the Sub-Fund given that the actual enforcement and interpretation of the VAT rules is uncertain.

As disclosed in the Explanatory Memorandum, the Manager reserves the right to make provisions in respect of the Sub-Fund for tax obligations based on independent tax advice obtained. The Manager, acting in the best interest of the Sub-Fund and the Unitholders, and having consulted with the

professional tax adviser, has decided to change the VAT provisions policy from 15 November 2018 in respect of the interest income derived from the relevant bonds. Starting from 15 November 2018, the Sub-Fund shall make VAT provision at 6.72% for both VAT and local surcharges on the daily accrued interest income received and to be received by the Sub-Fund from the relevant bonds, provided that such VAT is not borne by the bond issuers.

On 15 November 2018, the VAT provisions made in respect of interest income received and/or accrued up to 14 November 2018 were reflected in (i.e. deducted from) the net asset value of the Sub-Funds, and had an impact as follows:

<b>Sub-Fund</b>	<b>VAT provisions on interest income received and/or accrued</b>	<b>Net Asset Value of the Sub-Fund</b>	<b>% of Net Asset Value of the Sub-Fund</b>
<b>(Period / Date)</b>	<b>(up to 14 November 2018)</b>	<b>(as at 15 November 2018)</b>	<b>(as at 15 November 2018)</b>
CMS China Opportunities Flexifund	RMB 7,518.41	RMB 2,319,658.49	0.32%

### **1.3 Consequences of changes set out above**

There is a possibility that the current tax laws, rules, regulations and practice in the PRC and/or the current interpretation or understanding thereof may be changed with retrospective effect in the future and any such change may have an adverse effect on the net asset value of the Sub-Funds. Moreover, such changes may impact the tax provisioning policy and tax position of the Sub-Funds. Any shortfall between the provision and the actual tax liabilities, which will be debited from the Sub-Funds' assets could have a material adverse impact on the net asset value of the Sub-Funds, thereby causing significant losses to investors. The actual tax liabilities may also be lower than the tax provision made. Investors may be advantaged or disadvantaged depending upon the final tax outcome as and when they subscribed and/or redeemed the Units of the Sub-Funds. Investors should note that no Unitholders who have redeemed their Units in the Sub-Funds before the release (if any) of any excess tax provision shall be entitled to claim in whatsoever form any part of the tax provision or withholding amounts released to the Sub-Funds, which amount will be reflected in the value of Units in the Sub-Funds.

The Manager may, upon taking professional tax advice, at its discretion, arrange with the Trustee to change the tax provisions in regard to potential PRC tax liabilities in respect of the Sub-Funds' investments in the PRC based on new developments and interpretation of the relevant regulations from time to time, for the purpose of meeting the Sub-Funds' tax liabilities in respect of or arising out of any PRC taxes, charges and duties.

Investors should seek their own tax advice on their tax position with regard to their investment in the Sub-Funds.

### **1.4 Enhancement of PRC tax disclosures**

In this connection, the disclosures relating to PRC tax and tax provisioning policy in the Explanatory Memorandum have been revised/enhanced.

## **2. Clarificatory amendment to the investment policy of CMS China Opportunities Flexifund**

With immediate effect, the investment policy of CMS China Opportunities Flexifund will be clarified as follows.

The Sub-Fund may invest not less than 80% of its Net Asset Value (instead of total assets as previously disclosed) in (A) RMB denominated and settled debt securities, which include, but are not limited to fixed and floating rate bonds, convertible bonds, central bank bills, short-term financing bills and certificates of deposits issued and distributed within mainland China and (B) fixed income funds

which are authorised by the China Securities Regulatory Commission (“CSRC”) for offer to the retail public in the PRC.

The Sub-Fund may invest not more than 20% of its Net Asset Value (instead of total assets as previously disclosed) in (A) RMB denominated and settled equity securities which include, but are not limited to, China A-Shares (including initial public offerings) and (B) equity funds which are authorised by the CSRC for offer to the retail public in the PRC.

For the avoidance of doubt, there is no change in the manner the Sub-Fund is managed.

### **3. Means of publication of unit prices / suspension notices**

With immediate effect, the net asset value per Unit of the Sub-Funds and notices regarding suspension of dealings or determination of the net asset value of the Sub-Funds will be published on the Manager’s website at [http://www.cmsamhk.com/en/products\\_funds](http://www.cmsamhk.com/en/products_funds) (the website has not been reviewed by the SFC).

### **4. Means of submitting application form and redemption request**

Previously, application form and redemption requests may be submitted to the Manager or Authorised Distributors. With immediate effect, in addition to the Manager or Authorised Distributors, investors may also submit application form and redemption request to the Trustee.

### **5. Enhancement of disclosures**

For the purpose of enhancement to align with the disclosure requirements of the SFC’s Guide on Practices and Procedures for Application for Authorization of Unit Trusts and Mutual Funds (“Guide”), the disclosures on the investment policy and risk disclosures of each of the Sub-Funds have been enhanced. Notwithstanding such enhancement of disclosures, there will be no change to the way each of the Sub-Funds are managed in practice, nor any change to their risk profile, fee level or fee structure.

### **6. Automatic exchange of financial account information**

A new sub-section headed “Automatic exchange of financial account information” has been included under the section headed “TAXATION” of the Explanatory Memorandum, and is summarised below.

The Standard for Automatic Exchange of Financial Account Information (“**AEOI**”) under the Inland Revenue Ordinance requires financial institutions in Hong Kong to collect information relating to non-Hong Kong tax residents holding accounts with financial institutions, and to file such information with the Hong Kong Inland Revenue Department (“**IRD**”) who in turn will exchange such information with the jurisdiction(s) in which that account holder is resident. Under the AEOI, details of unitholders, including but not limited to their name, jurisdiction of birth, address, tax residence, taxpayer identification number, account details, distribution and account balance/value may be reported to the IRD and subsequently exchanged with competent authorities in the relevant jurisdictions of tax residence.

Each Sub-Fund is required to comply with the requirements of AEOI as implemented by Hong Kong, which means that it and/or its agents may collect and provide to the IRD tax information relating to Unitholders and prospective investors.

By investing in the Sub-Funds and/or continuing to invest in the Sub-Funds, Unitholders should acknowledge that they may be required to provide additional information to the Sub-Funds, and/or the Sub-Funds’ agents in order for the Sub-Funds to comply with AEOI. The Unitholder’s information (and information on beneficial owners, beneficiaries, direct or indirect shareholders or other persons associated with such Unitholders that are not natural persons), may be reported to the IRD which will then exchange with the competent authorities in the relevant jurisdictions.

Each Unitholder and prospective investor should consult its own professional advisor(s) on the administrative and the implications of AEOI on its current or proposed investment in the Sub-Funds.

## **7. Liquidity Risk Management**

A new section headed “LIQUIDITY RISK MANAGEMENT” has been included in the Explanatory Memorandum to provide further information about the Manager’s policy on liquidity risk management, as summarised below.

The Manager has established a liquidity management policy which enables it to identify, monitor and manage the liquidity risks of each Sub-Fund and to ensure that the liquidity profile of the investments of each Sub-Fund will facilitate compliance with the respective Sub-Fund’s obligation to meet redemption requests.

As part of its liquidity management policy, the Manager would regularly assess the liquidity of each Sub-Fund’s assets under the current and likely future market conditions. For further details, please refer to section headed “LIQUIDITY RISK MANAGEMENT” in the Explanatory Memorandum.

## **8. Revised Fund Manager Code of Conduct**

The Manager is licensed by the Hong Kong Securities and Futures Commission (the “SFC”) for type 9 (asset management) regulated activity and accordingly is subject to regulation by the SFC, including the SFC’s Fund Manager Code of Conduct (the “Fund Manager Code”). The SFC will revise the Fund Manager Code with effect from 17 November 2018 to include, among others, certain disclosure obligations on companies licensed by the SFC for type 9 regulated activity in relation to funds they manage. The disclosure obligations relate to leverage, securities lending, repurchase and reverse repurchase transactions, custody risk, liquidity risk and liquidity risk management and other risk management policies.

The Explanatory Memorandum has been amended to reflect the disclosure requirements of the revised Fund Manager Code.

## **9. Change of Auditors**

With effect from 9 November 2018, the auditors of the Fund and the Sub-Funds have been changed from Deloitte Touche Tohmatsu to Ernst & Young.

The Explanatory Memorandum has been amended to reflect the foregoing changes. Should you wish to obtain a copy of the latest Explanatory Memorandum, please visit [http://www.cmsamhk.com/en/products\\_funds](http://www.cmsamhk.com/en/products_funds).

Should you have any questions about the changes described above, please contact us at 48/F One Exchange Square, Central, Hong Kong or by telephone at +852 2530 0698.

Yours faithfully,

**CMS Asset Management (HK) Co., Limited**

**16 November 2018**