CMS Funds
(the “Fund”)

CMS China Opportunities Flexifund
CMS Hong Kong Multi Income Fund
(the “Sub-Funds”)

THIRD ADDENDUM

This Third Addendum should be read in conjunction with and forms part of the Explanatory Memorandum of the Fund dated June 2014 in respect of the Sub-Funds, as amended by the First Addendum dated May 2015 and the Second Addendum dated October 2015 (collectively, the “Explanatory Memorandum”).

All capitalized terms herein contained shall have the same meaning in this Third Addendum 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 Third Addendum 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.

With effect from 27 May 2016 (the “**Effective Date**”), the following changes shall be made:

Update of publication of prices

(i) The section headed “PUBLICATION OF PRICES” on page 49 of the Explanatory Memorandum shall be deleted and replaced with the following:-

“The Net Asset Value per Unit of each Sub-Fund at each Valuation Day will be published on every Dealing Day in Hong Kong on the Manager’s website at http://www.cmsamhk.com/en/products_funds. This website has not been reviewed or authorized by the SFC and may contain information of funds not authorised by the SFC.”

Changes of the PRC tax provisioning policy and reversal of the PRC tax provisions

(ii) The fourth paragraph under the heading “<u>Gain from the trading of PRC Securities</u>” under the risk factor headed “(xix) ***PRC tax considerations***” under the section headed “**RISK FACTORS**” on page 34 of the Explanatory Memorandum shall be deleted and replaced with the following:-

“Circular No. 79 is silent on whether and how EIT will be imposed on gains derived by non-resident enterprises from the trading of debt securities issued by PRC tax resident enterprises (“**PRC Debt Securities**”) and specific tax rules and guidance in this respect have yet to be announced. It is therefore not entirely clear as to whether PRC EIT will apply on gains derived by RQFIIs from trading of PRC Debt Securities. With that said, based on the PRC tax authorities’ verbal indication and the current enforcement practice, capital gains from disposal of PRC Debt Securities are not subject to PRC WIT.

In addition to the PRC tax authorities' verbal comments, Article 13.6 of the China-HK Arrangement provides that any gains derived by a Hong Kong tax resident from the disposal of PRC properties that are not referred to in Articles 13.1 to 13.5 of the China-HK Arrangement shall be taxable only in Hong Kong. As PRC Securities other than equity investments are not referred to in Articles 13.1 to 13.5 of the China-HK Arrangement, capital gains derived by the Hong Kong tax resident from the disposal of PRC Securities other than equity investments should technically be exempt from PRC WIT provided all the other relevant treaty conditions are satisfied, subject to agreement by the PRC tax authorities. In order to qualify for this preferential treatment, the Manager will further assess and follow the procedural guidance set out by the SAT under Bulletin 60 in applying for tax treaty benefits for the relevant Sub-Fund, although this cannot be guaranteed."

(iii) The section headed "**PRC Tax Provisions**" on page 63 of the Explanatory Memorandum shall be deleted and replaced with the following:-

"**PRC Tax Provisions**

For further details relating to PRC taxes and the associated risks, please refer to the risk factor headed "PRC tax considerations" under the "Risk Factors" section. Investment in the Sub-Fund may be subject to the risks associated with changes in the PRC tax laws, regulations and practice in respect of capital gains realized by RQFIIs on their investments in the PRC. Changes in the PRC tax laws in the future may have retrospective effect and the Sub-Fund may be adversely affected. In view of the current enforcement practice and Circular No. 79, the Manager, having taken and considered independent tax advice, determined that no WIT provision will be made on the gross realized and unrealized gains derived from PRC equity investments through the RQFII scheme or the gross realised gains derived from the disposal of PRC bonds. The Manager will continue to make provisions for WIT payable by the Sub-Fund on (i) interest from PRC debt securities and (ii) dividends derived from China tax resident enterprises, at a rate of 10% if the relevant WIT is not withheld at source, unless specifically exempt or reduced under an applicable double tax agreement or arrangement. Upon the availability of a definitive tax assessment or the issue of announcements or regulations by the competent authorities promulgating definitive tax assessment rules, any sums withheld in excess of the tax liability incurred or is expected to be incurred by the Sub-Fund shall be released and transferred to the Sub-Fund's accounts forming part of the Sub-Fund's assets. On the other hand, where the amount of such provisions is not sufficient to meet the actual tax liabilities, any shortfall will be debited from the Sub-Fund's assets. The Sub-Fund's asset value will be adversely affected."

CMS Asset Management (HK) Co., Limited

27 May 2016