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 December 2019 (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,

We write to inform you of following changes concerning the Sub-Funds.

1. Amendments to Reflect Requirements under the Revised Code on Unit Trusts and Mutual Funds

The Fund and the Sub-Funds are subject to the Code on Unit Trusts and Mutual Funds ("**Code**") issued by the Securities and Futures Commission in Hong Kong ("**SFC**"). The Code has been revised. The Trust Deed will be amended by way of a supplemental deed ("**Supplemental Deed**") and the Explanatory Memorandum will be amended by way of a revised Explanatory Memorandum ("**Revised Explanatory Memorandum**") to reflect the requirements under the revised Code.

The following key changes will be made to the Trust Deed and/or the Explanatory Memorandum (where applicable) to reflect the requirements under the revised Code:

1. <u>Trustee and Manager</u> - additional obligations of the Trustee and the Manager under Chapters 4 and 5 respectively of the revised Code.

2. <u>Investment Restrictions: Core Requirements</u> - amendments to the core requirements of the investment limitations and prohibitions under Chapter 7 of the revised Code, including but not limited to amendments in relation to the following: spread of investments, commodities, restrictions on making loans, limitations on borrowing, financial derivative instruments and collateral etc.

   A summary of the key revised investment restrictions/requirements pursuant to the revised Code are set out in Annexure A enclosed with this Notice.

   The net derivative exposure of CMS Hong Kong Multi Income Fund may be up to 50% of its net asset value. The net derivative exposure is calculated in accordance with the Code and the requirements and guidance issued by the SFC which may be updated from time to time. In calculating the net derivative exposure, derivatives acquired for investment purposes that would generate incremental leverage at the portfolio level of the Sub-Fund are converted into their equivalent positions in their underlying assets. For the avoidance of doubt, CMS Hong Kong Multi Income Fund will not invest in financial derivative instruments for non-hedging purposes.

   CMS China Opportunities Flexifund will not use financial derivative for any purposes.

3. Other Amendments - other amendments and enhancement of disclosures to reflect the requirements of the revised Code including the following:

   (a) enhanced disclosures on the custody arrangements in respect of the assets of the Sub-Funds;

   (b) enhanced disclosures on the valuation policy in respect of the assets of the Sub-Funds;

   (c) amendments to reflect the requirements under the revised Code on transactions with connected persons and soft dollars arrangements; and

   (d) enhanced disclosures on arrangements in handling unclaimed proceeds of Unitholders where a Sub-Fund is terminated.

Please refer to the Revised Explanatory Memorandum and the Supplemental Deed for further details.

2. Change in PRC tax provisioning policy of CMS China Opportunities Flexifund (the "COF")

1. Background

   Previously, the Manager has made PRC withholding income tax ("**WIT**") and PRC value added tax ("**VAT**") provisions for interest income from non-government bonds at a rate of 10% for WIT and a rate of 6.72% for VAT and local surcharges.

   On 22 November 2018, the Ministry of Finance and the PRC State Administration of Taxation ("**SAT**") jointly issued Caishui [2018] No.108 ("**Circular 108**") to stipulate that foreign institutional investors are temporarily exempt from PRC WIT and VAT with respect to bond interest income derived in the PRC domestic bond market for the period from 7 November 2018 to 6 November 2021.

   On 27 December 2019, the Manager, having consulted with the professional tax adviser, decided not to make any provisions for WIT and VAT on interest income from the COF's investments in PRC onshore bonds received for the period from 7 November 2018 to 6 November 2021.

   There is still lack of clear guidance in respect of the WIT and VAT applicable to interest income derived by the COF from PRC onshore debt securities, in particular, whether interest income received prior to 7 November 2018 is subject to WIT and VAT. Therefore, the Manager will retain the WIT and VAT provision in respect of interest received from investments in PRC onshore non-government bonds prior to 7 November 2018, until new developments and interpretation of the relevant regulations are available.

   It is also uncertain whether the 3-year exemption under Circular 108 will continue to be available after 6 November 2021.

2. Reversal of Tax Provision and Impact on Net Asset Value

   Accordingly, the Manager has decided to reverse the tax provisions in respect of the WIT and VAT on the interest income from the COF's investments in PRC onshore non-government bonds for the period from 7 November 2018 to 26 December 2019 (the "**Relevant Tax Provisions**"). The Relevant Tax Provisions were reversed and applied to the COF on 27 December 2019 as follows:

The amount of reversal	The positive impact on the Net Asset Value of the COF as at 27 December 2019
RMB 5,923.29	0.25%

   Investors who have already redeemed their Units in the COF before the reversal of tax provision is applied to the COF will not be entitled to claim in whatsoever form any part of the reversed tax provision.

   BOCI-Prudential Trustee Limited, the Trustee of the COF has been notified and has no objection to the reversal of tax provision as described above.

3. PRC Tax Risks

   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 COF. Moreover, such changes may impact the tax provisioning policy and tax position of the COF. Any shortfall between the provision and the actual tax liabilities, which will be debited from the COF's assets could have a material adverse impact on the net asset value of the COF, 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 COF. Investors should note that no Unitholders who have redeemed their Units in the COF 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 COF, which amount will be reflected in the value of Units in the COF.

   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 COF's investments in the PRC based on new developments and interpretation of the relevant regulations from time to time, for the purpose of meeting the COF's 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 COF.

3. Other updates

In addition to the above, the Explanatory Memorandum have been revised to reflect the following updates:

1. Update to the profiles of the Trustee and Registrar, the Custodian and the RQFII Custodian - the profiles of the Trustee and Registrar, the Custodian and the RQFII Custodian have been updated. Please refer to the sub-sections "The Trustee and Registrar", "The Custodian" and "The RQFII Custodian" under the section "MANAGEMENT OF THE FUND" of the Explanatory Memorandum for more details.

2. Other enhancement of disclosures – other enhancement of disclosures and miscellaneous amendments have been made in the Explanatory Memorandum, including disclosures in relation to the use of facsimile or other electronic means for subscription, redemption and switching of Units as well as valuation rules.

Yours faithfully,

CMS Asset Management (HK) Co., Limited

30 December 2019

ANNEXURE A

SUMMARY OF KEY REVISED INVESTMENT RESTRICTIONS

The key amendments to the investment restrictions are as follows:

(a) the aggregate value of a Sub-Fund's investments in, or exposure to, any single entity (other than Government and other public securities) through the following may not exceed 10% of its latest available Net Asset Value:

    (i) investments in securities issued by that entity;

    (ii) exposure to that entity through underlying assets of financial derivative instruments; and

    (iii) net counterparty exposure to that entity arising from transactions of over-the-counter financial derivative instruments.

(b) subject to the requirements under the revised Code, the aggregate value of a Sub-Fund's investments in, or exposure to, entities within the same group (i.e. generally, entities which are included in the same group for the purposes of consolidated financial statements prepared in accordance with internationally recognized accounting standards) through the following may not exceed 20% of its latest available Net Asset Value:

    (i) investments in securities issued by those entities;

    (ii) exposure to those entities through underlying assets of financial derivative instruments; and

    (iii) net counterparty exposure to those entities arising from transactions of over-the-counter financial derivative instruments.

(c) the value of a Sub-Fund's cash deposits made with the same entity or entities within the same group may not exceed 20% of its latest available Net Asset Value provided that the 20% limit may be exceeded in certain circumstances specified in the revised Code.

(d) a Sub-Fund may not invest in physical commodities unless otherwise approved by the SFC and disclosed in the investment policies of the Sub-Fund.

(e) subject to the requirements under the revised Code, a Sub-Fund may not lend, assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person. For the avoidance of doubt, securities lending transactions and reverse repurchase transactions in compliance with the requirements under the revised Code are not subject to the limitations in this paragraph.

(f) the maximum borrowing of a Sub-Fund has been reduced to 10% of its latest available Net Asset Value. For the avoidance of doubt, sale and repurchase transactions in compliance with the requirements under the revised Code are not subject to the limitations in this paragraph.

(g) a Sub-Fund may acquire financial derivative instruments for hedging purposes.

(h) a Sub-Fund may also acquire financial derivative instruments for non-hedging purposes in accordance with its investment objective and policy subject to the limit that such Sub-Fund's net exposure relating to these financial derivative instruments ("**net derivative exposure**") does not exceed 50% of its latest available Net Asset Value.

    Net derivative exposure shall be calculated in accordance with the Code and the requirements and guidance issued by the SFC which may be updated from time to time. For the avoidance of doubt, financial derivative instruments acquired for hedging purposes will not be counted towards the 50% limit so long as there is no residual derivative exposure arising from such hedging arrangement.