

**CMS Funds
(the “Fund”)**

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

FIRST ADDENDUM

This First 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 (the “Explanatory Memorandum”).

All capitalized terms herein contained shall have the same meaning in this First 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 First 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 4 May 2015 (the “Effective Date”), the following changes shall be made:

Update of frequency 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 in The Standard and in Hong Kong Economic Times. It will also be available 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.”

PRC taxation and PRC tax provisions

- (ii) The risk factor headed “(xix) *PRC tax considerations*” under the section headed “**RISK FACTORS**” on pages 34 to 38 of the Explanatory Memorandum shall be deleted and replaced with the following:-

“*PRC tax considerations* – By investing in PRC Securities, a Sub-Fund may be subject to taxes imposed by the PRC.

Taxation of the Fund

Enterprise Income Tax (“EIT”):

Under the PRC Enterprise Income Tax Law (the "PRC EIT Law") and the implementation rules, effective from 1 January 2008, a foreign enterprise without a place of effective management or an establishment in the PRC will generally be subject to a withholding income tax ("WIT") at the current rate of 10% on its PRC sourced income, including but not limited to passive income (e.g. dividends, interest, gains arising from transfer of assets etc.).

The Trustee and the Manager intend to use commercially reasonable efforts to manage and conduct the affairs of the Fund (comprising the Sub-Funds) in such a way that the risk of the Fund being considered as a tax resident enterprise of the PRC or a non-tax resident enterprise with an establishment or place of business in the PRC for EIT purposes is reduced as far as possible. As such, it is expected that the Fund should only be subject to EIT on a withholding basis to the extent that the Fund and the relevant Sub-Fund directly derive passive income with a PRC source. However, there can be no assurance that such objective will be achieved. Any PRC WIT imposed on an RQFII in respect of the PRC Securities invested by the relevant Sub-Fund will be passed on to the Sub-Fund and the asset value of the Sub-Fund will be reduced accordingly.

Dividend and interest income

According to the PRC EIT Law and its implementation rules, if the Fund does not have a place of effective management, establishment or place of business in China, the Fund generally would be subject to PRC WIT on interests derived from RMB denominated corporate bonds issued by a China tax resident entity and dividends derived from China tax resident enterprises, such as China A-Shares, B-Shares and H-Shares, at the rate of 10%, subject to applicable double tax treaty or arrangement, if any. For example, under the "Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income" (the "PRC-HK Arrangement"), the WIT charged on interest received by non-resident enterprise holders of debt instruments will be 7% of the gross amount of the interests, if the holders are Hong Kong residents and are the beneficial owners of the interests under the PRC-HK Arrangement. Pre-approval from the PRC tax authorities is also required before the reduced 7% rate can apply. Interest income derived from bonds issued by the State Council's finance departments is specifically exempt from EIT under the PRC EIT Law; whereas interest income from bonds issued by local governments from 2009 to 2011 and those issued in 2012 and subsequent years are exempt from EIT under Circular Caishui [2011] No. 76 and Circular Caishui [2013] No. 5 respectively. The Manager reserves the right to make a PRC WIT provision of 10% on dividend and interest from PRC Securities if the WIT is not withheld at source. The actual amount of provision, if any, will be disclosed in the financial statements of the Fund.

Gain from the trading of PRC Securities

Pursuant to the PRC EIT Law, a non-resident enterprise with no place of effective management, establishment or place of business in the PRC would

generally be subject to WIT at the rate of 10% on its China-sourced gains from the trading of PRC Securities, unless they are exempt or reduced under the PRC tax laws and regulations or applicable double tax treaty or arrangement, if any.

In respect of equity investments, the Ministry of Finance, the State Administration of Taxation and the China Securities Regulatory Commission have issued circulars on 14 November 2014 to clarify the relevant EIT liabilities:-

Pursuant to the "Notice on the temporary exemption of Enterprise Income Tax on gains derived from the transfer of PRC equity investment assets such as PRC domestic stocks by Qualified Foreign Institutional Investor ("QFII") and RQFII" ("Circular No. 79"):

- QFIIs and RQFIIs without a place of effective management, establishment or place of business in the PRC will be temporarily exempt from EIT on gains derived from the transfer of PRC equity investment assets effective from 17 November 2014; and
- EIT will be imposed on such gains earned by QFIIs and RQFIIs prior to 17 November 2014 in accordance with the PRC EIT Law.

Circular No. 79 is silent on whether and how EIT will be imposed on gains derived by non-resident enterprises from the trading of PRC bonds and specific tax rules and guidance in this respect have yet to be announced. It is therefore not entirely clear whether EIT will apply on gains derived by RQFIIs from the trading of PRC bonds. In practice, the PRC tax authorities have not enforced the collection of EIT in this regard.

Any tax liability and/or amount that is estimated in anticipation of WIT in China on the gains of the Sub-Fund's investments made through the RQFIIs may ultimately be recharged to and borne by the Sub-Fund. The Manager reserves the right to make provisions in respect of a Sub-Fund for the above tax obligations based on independent tax advice obtained. Even if tax provisions are made, the amount of such provisions may not be sufficient to meet the actual tax liabilities. With the uncertainties under the applicable PRC tax laws and the possibility of such laws being changed and taxes being applied retrospectively, any provision for taxation made by the Manager may be excessive or inadequate to meet actual PRC tax liabilities. In the event that it is satisfied (based on tax advice) that part of the tax provisions are not required, the Manager will release such provisions back into the relevant Sub-Fund, forming part of such Sub-Fund's assets. In case of any shortfall between the provisions and actual tax liabilities, which will be debited from the Sub-Fund's assets, the Sub-Fund's asset value will be adversely affected. The Manager's current policy on tax provisions is set out in the Appendix for the relevant Sub-Fund.

Business Tax ("BT") and other surtaxes:

In the absence of specific exemptions, foreign enterprises are subject to BT at the rate of 5% in respect of gains derived from the disposal of marketable

securities in China, such as China A-Shares and China B-Shares. However, no specific tax administration and collection rules governing the imposition and collection of such BT in relation to foreign enterprises have to date been issued. It is uncertain whether Circular Caishui [2005] No.155, which provides for the exemption from BT on gains derived by QFII from trading of PRC securities, would equally apply to securities trading gains derived through RQFIIs. PRC Securities trading gains derived through RQFIIs may therefore be subject to BT at the rate of 5%.

The new BT reform, which came into effect on 1 January 2009, does not specifically exempt BT on interest earned by non-financial institutions. It is not entirely clear whether BT will apply to interest on government and corporate bonds but in practice, some local tax authorities have provided exemption from BT on interest from certain government and/or corporate bonds.

If BT is applicable, other surtaxes (which include Urban Construction and Maintenance Tax, Education Surcharge and Local Education Surcharge) would also be charged at an amount as high as 12% on the 5% BT payable (or an additional 0.6%).

Stamp Duty

Stamp Duty is levied on certain taxable documents executed or used in China, such as documentation effecting the transfer of equity interests in Chinese companies, the purchase and sale of China A-Shares and China B-Shares, the purchase and sale of goods, contract documents issued for process contracting, construction contracting, property leasing, and other documents listed in the Stamp Duty Regulations.

Currently, Stamp Duty on China A-Shares and China B-Shares transactions is imposed on the seller but not on the purchaser, at the rate of 0.1%.

It is unclear whether PRC Stamp Duty that is imposed on the transfer of shares of PRC companies under the Stamp Duty Regulations would similarly apply to the acquisition and disposal of China H-Shares by non-PRC investors outside the PRC. That said, PRC Stamp Duty is generally not imposed for trading of China H-Shares in practice.

No PRC Stamp Duty is expected to be imposed on non-tax resident holders of government and corporate bonds, either upon issuance or upon a subsequent transfer of such bonds.

Taxation of Unitholders

Individual Income Tax ("IIT")

Non-PRC national individual Unitholders should generally not be subject to IIT on investment distributions they receive from the Fund. To the extent that the Fund is not regarded as a PRC tax resident enterprise, there should be no PRC

WIT applicable to investment distributions from or gains realized on disposal of Units in the Fund on the basis that such distributions and gains should not be considered to be PRC-sourced income.

If an individual Unitholder is regarded as being domiciled in China, the Unitholder is subject to PRC IIT on its worldwide income. The investment distributions from or gains realized on disposal of Units in the Fund it received should be subject to the standard tax rate of 20% provided that the income is considered as investment income or income from transfer of assets for purposes of the PRC IIT. Besides, if the Unitholder is a non-PRC domiciled individual but resides in China continuously for more than 5 full years (temporary absence of less than 30 days on a single trip or an aggregate period of less than 90 days in a calendar year will not count), this individual would be taxed on worldwide income basis in PRC beginning from the sixth year of residence or onwards if this individual resides in China for one full year in any year after the fifth year. The investment distributions from or gains realized on disposal of Units in the Fund this individual receives should be subject to the standard tax rate of 20% provided that the income is considered as investment income or income from transfer of assets for purposes of the PRC IIT.

EIT

Corporate Unitholders who are considered to be non-PRC tax resident enterprises without an establishment or place of business in the PRC should not be subject to EIT as a result of their investment in the Fund. To the extent that the Fund is not regarded as a PRC tax resident enterprise, there should be no PRC WIT applicable to investment distributions from or gains realized on disposal of Units in the Fund on the basis that such distributions and gains should not be considered to be PRC-sourced income.

Corporate Unitholders who are considered to be PRC tax resident enterprise or non-PRC tax resident enterprise with an establishment or place of business in the PRC (and where such establishment holds the Units in the Fund as part of its business) should be subject to EIT on investment distributions from and gains realized on disposal of Units in the Fund.

Various tax reform policies have been implemented by the PRC government in recent years, and the existing tax laws and regulations may be revised or amended in the future. There is a possibility that the current tax laws, regulations and practice in the PRC will be changed with retrospective effect in the future and any such change may have an adverse effect on the asset value of the relevant Sub-Fund. Moreover, there is no assurance that tax incentives currently offered to foreign companies, if any, will not be abolished and the existing tax laws and regulations will not be revised or amended in the future. Any changes in tax policies may reduce the after-tax profits of the companies in the PRC which a Sub-Fund invests in, thereby reducing the income from, and/or value of the Units.

Unitholders should seek their own tax advice on their tax position with regard to their investment in the Fund.”

- (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.

Based on independent tax advice, prior to 17 November 2014, the Manager has made provisions for any PRC taxes payable by the Sub-Fund on the gross realised gains derived from the disposal of PRC Securities, at a rate of 10%.

Starting from 17 November 2014, the Sub-Fund is temporarily exempt from WIT on gains derived from PRC equity investments according to Circular No. 79. Accordingly, no WIT provision will be made on the gross realized and unrealized gains derived from PRC equity investments through the RQFII scheme. The Manager will continue to make provisions for WIT payable by the Sub-Fund on (i) the gross realised gains derived from the disposal of PRC bonds, (ii) interest from PRC bonds, and (iii) 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 relevant double tax treaties.

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

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