

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.**  
**IF IN DOUBT, PLEASE SEEK PROFESSIONAL ADVICE.**

**CMS FUNDS ("Fund")**  
**CMS China Opportunities Flexifund ("Sub-Fund")**

**NOTICE TO UNITHOLDERS**

Capitalised terms used in this notice shall have the same meaning ascribed to them in the latest version of the Explanatory Memorandum ("**Explanatory Memorandum**") of the Fund unless the context otherwise requires.

CMS Asset Management (HK) Co., Limited as the Manager of the Sub-Fund accepts responsibility for the accuracy of the contents of this notice as at the date of this notice, 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, as the Manager of the Sub-Fund, wish to notify you that we have decided to terminate the Sub-Fund.

Since the Sub-Fund invests primarily in debt securities issued within mainland China, termination of the Sub-Fund will be subject to the PRC tax clearance (as discussed in the section headed "**PRC tax settlement and clearance**" below).

Based on the independent professional tax advice and our best efforts and reasonable expectations having regard to the timeframe generally needed to obtain the PRC tax clearance, we expect that such tax clearance will be obtained from the relevant PRC tax authorities in around 2 months from the date of this notice (i.e. around 14 June 2024). Once the PRC tax clearance is obtained, we shall proceed to terminate the Sub-Fund on or around 16 July 2024 (the "**Termination Date**") after the Trustee and we have formed the opinion that the Sub-Fund has no outstanding contingent or actual liabilities or assets. Relevant Unitholders (as defined below) will be notified of any change in the Termination Date and/or the PRC Tax Clearance Date (as defined below), details of which are set out under the section headed "**Arrangements after the Dealing Deadline**" below. We will also apply to the Securities and Futures Commission (the "**SFC**") for the withdrawal of authorisation of Sub-Fund and its offering documents after such termination.

**A. Reasons for termination**

Pursuant to Clause 27.3 of the Trust Deed of the Fund dated 6 January 2012, and as disclosed in the Explanatory Memorandum, the Sub-Fund may be terminated by the Manager in its absolute discretion by notice in writing if on any date, in relation to the Sub-Fund the aggregate Net Asset Value of the Units of the relevant class outstanding is less than RMB 100,000,000.

As of the date of this notice, save for Class A Units, there are no investors for the other classes of Units in the Sub-Fund. The Net Asset Value of the Sub-Fund as of 31 March 2024 is RMB 556,096.26. Given the Net Asset Value of the Sub-Fund falls below the termination Net Asset Value threshold specified in the Trust Deed, the Manager is of the view that termination of the Sub-Fund would be in the best interests of the Unitholders of the Sub-Fund. The Trustee has no objection to the proposed termination.

According to the Trust Deed and the Explanatory Memorandum, the Manager shall give notice to the Unitholders prior to the effective date of the termination. In accordance with the foregoing and the requirement under 11.5 of the Code on Unit Trusts and Mutual Funds, the Manager hereby gives no less than one month's notice to the Unitholders in relation to the termination of Sub-Fund. No extraordinary resolutions of Unitholders are required to authorise the termination.

## **B. Latest information of the Sub-Fund**

As of 31 March 2024, the ongoing charges figure of Class A Units of the Sub-Fund is 2.93%.

The ongoing charges figure is a figure based on ongoing expenses of the classes of Units of the Sub-Fund for the year ended 31 March 2024, expressed as a percentage of the average Net Asset Value of the relevant class over the same period. The above ongoing charges figure of Class A Units of the Sub-Fund will be capped at a maximum of 3% of the average Net Asset Value of the Sub-Fund. Expenses will be borne by the Manager and will not be charged to the Sub-Fund if such expense would result in the ongoing charges figure exceeding 3%.

As set out in the section headed “**Expenses and Charges**” of the Explanatory Memorandum, the costs and expenses of establishing the Sub-Fund have been fully amortised. There are no unamortised establishment costs of the Sub-Fund.

## **C. Implications of termination and liquidation process**

From the date of this notice:

- (i) no new subscriptions or switching into the Sub-Fund will be permitted; and
- (ii) the Sub-Fund is no longer allowed to be marketed to the public in Hong Kong.

The Sub-Fund will cease dealing after the Dealing Deadline (as defined below).

In order to ensure that the Sub-Fund will be terminated in an orderly manner, the Manager will, shortly after the date of this notice, progressively realise all the underlying investments of the Sub-Fund. As such, please note that the Sub-Fund may only hold cash and may not be able to fulfil its investment objective and strategy after the realisation of the Sub-Fund's underlying investments commences.

We will apply to the SFC for the withdrawal of authorisation of the Sub-Fund and its offering documents following the termination of the Sub-Fund.

## **D. Alternatives available to you as a Unitholder of the Sub-Fund**

From the date of this notice, you may choose to:

- (i) at any time before 5:00 p.m. (Hong Kong time), on 9 May 2024 (“**Dealing Deadline**”), redeem your existing Units in the Sub-Fund free of redemption charge;
- (ii) at any time before the Dealing Deadline, switch your existing Units in the Sub-Fund into the Units of another sub-fund under the Fund free of switching charge; or
- (iii) take no action and continue to hold Units of the Sub-Fund as at the Dealing Deadline.

Please note the following:

- If you choose to redeem your existing Units in the Sub-Fund, your redemption request must be received by the Registrar before the Dealing Deadline. Units will be realised at the then prevailing redemption price on the relevant Dealing Day (calculated by reference to the applicable Net Asset Value per Unit), free of redemption charge. Unitholders' attention is drawn to the section headed “**Redemption of Units**” in the Explanatory Memorandum for the procedures of redemption (for the avoidance of doubt, no redemption charge is payable). Redemption proceeds will normally be paid within seven Business Days, and in any event, no later than one calendar month after the relevant Dealing Day. Payment of redemption proceeds will be subject to procedures as set out in the Explanatory Memorandum.
- If you choose to switch your existing Units in the Sub-Fund into Units of another sub-fund under the Fund, your switching request must be received by the Registrar before the Dealing

Deadline. Units will be converted at the Net Asset Value per Unit on the relevant Dealing Day, free of switching charge. Unitholders' attention is drawn to the section headed "**Switching between Classes**" in the Explanatory Memorandum for the procedures of switching (for the avoidance of doubt, no switching charge is payable). Switching will be subject to procedures as set out in the Explanatory Memorandum. Before switching and investing in another sub-fund of the Fund, you should read and understand the investment objective, policies and fees applicable to the relevant sub-fund as described in the Explanatory Memorandum and the relevant product key facts statement(s).

- If you choose to take no action and remain in the Sub-Fund after the Dealing Deadline (and thereby become a "**Relevant Unitholder**"), with effect immediately after the Dealing Deadline, all the assets comprised in the Sub-Fund will be realised and all net cash proceeds derived from the realisation and available for the purposes of distribution will be distributed to you in proportion to your holdings of Units in the Sub-Fund. Please refer to the section headed "**Arrangements after the Dealing Deadline**" below for more details.
- Your distributor may impose a different internal dealing cut-off time which may be earlier than the Dealing Deadline stated above. You should check with your distributor to confirm the applicable dealing cut-off time.
- Although the Manager will not impose redemption charge or switching charge on any redemption or switching requests made by Unitholders of the Sub-Fund from the date of this notice until the Dealing Deadline, you should check with your distributors to confirm the applicable transaction fees and expenses which may be incurred on the redemption or switching of Units.
- If you dispose of your Units at any time on or before the Dealing Deadline, you will not, in any circumstances, be entitled to any portion of the Excess Tax Distribution (as defined below) in respect of any Units so disposed of.

#### **E. Costs and expenses of termination**

For the termination costs of the Sub-Fund which include the costs and expenses associated with the subsequent withdrawal of authorisation after the Sub-Fund's termination, the associated legal fees and the fees and expenses incurred for obtaining the PRC tax clearance, the Manager has voluntarily undertaken to bear such costs and expenses and no provision would be set aside from the Sub-Fund's assets and deducted from the total assets to account for such costs and expenses. For the avoidance of doubt, such termination costs and expenses do not include normal operating expenses, such as transaction costs and any taxes relating to the liquidation of assets of the Sub-Fund for the termination, which will be borne by the Sub-Fund.

#### **F. PRC tax settlement and clearance**

The Sub-Fund invests primarily 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 for offer to the retail public in the PRC. The Sub-Fund's investments in the above-mentioned assets may be subject to taxes imposed by the PRC tax authorities and tax provisions have been made for PRC taxes payable by the Sub-Fund.

(a) *Withholding income tax / corporate income tax* – Non-tax resident enterprises without permanent establishment in the PRC are subject to PRC Corporate Income Tax on a withholding basis, generally at a rate of 10%, unless it is exempt or reduced under specific PRC tax circulars or relevant double tax treaty, to the extent it directly derives PRC sourced passive income (such as dividend income or interest income, which arise from investments in the PRC Securities. The Ministry of Finance (the "**MOF**") and the State Taxation Administration (the "**STA**") issued Caishui [2018] No. 108 ("**Notice No. 108**") which stipulated that foreign institutional investors are exempted from PRC withholding income tax ("**WIT**") and PRC Value-Added Tax ("**VAT**") in respect of bond interests received from 7 November 2018 to 6 November 2021 from investments in the China bond market.

On 22 November 2021, the MOF and the STA issued Announcement [2021] No.34 ("**Notice No. 34**"), which stipulated that the policy to exempt PRC WIT and PRC VAT would be extended to 31 December 2025.

There are no specific written tax regulations issued by the PRC tax authorities to confirm that gross capital gains on disposal of debt securities are non-PRC sourced and hence not subject to PRC WIT. In the absence of such specific rules, the income tax treatment for gains derived by Qualified Foreign Institutional Investors ("**QFI**") from trading PRC debt securities should be governed by the general tax provision of the PRC Enterprise Income Tax Law. On the basis that PRC debt securities are treated as movable assets, gains derived by non-PRC residents (including QFIs) from the trading of PRC debt securities should not be considered as PRC sourced income, and thus should not be subject to PRC WIT. You may refer to "**PRC tax considerations**" under the section headed "**Risk Factors**" in the Explanatory Memorandum for more details.

However, it should be noted that, tax exemptions are based on the interpretation of the tax authority in-charge, and different tax authorities may interpret tax rules or regulations differently, their positions may also change from time to time.

As at the date of this notice, in light of the above and having consulted with independent and professional tax advisor, the Manager has made:

- a provision for 10% withholding tax on dividend income arising from investments in the PRC Securities<sup>1</sup>;
- a provision for PRC WIT on interest income arising from investments in the PRC Securities before 7 November 2018 but no such provision has been made on and after 7 November 2018;
- a provision on the deposit interest income of the Sub-Fund; and
- no provision for PRC WIT on gross realised or unrealised capital gains derived from trading of PRC debt securities.

The amount of provision made out of the Sub-Fund for withholding income tax / corporate income tax amounted to RMB1,424,523.46.

(b) *Value-added tax* – Pursuant to Caishui [2016] No. 36 issued on jointly by MOF and STA ("**Notice No. 36**"), coupon interest income from PRC government bonds or local government bonds is exempt from PRC VAT. Pursuant to Notice No. 108 and Notice No. 34, PRC VAT are exempted in respect of bond interests received from 7 November 2018 to 31 December 2025 from investments in the China bond market. Under Notice No. 36 and Caishui [2016] No.70, gains realised by qualified foreign investors from trading of PRC Securities are exempted from PRC VAT. Gains realized by approved foreign investors from trading of RMB denominated debt securities in the China Interbank Bond Market are also exempt from PRC VAT. Dividend income or profit distributions on equity investment derived from the PRC are not subject to VAT. If PRC VAT is applicable, there are also other local surtaxes (including Urban Maintenance and Construction Tax, Education Surcharge and Local Education Surcharge) that could amount to as high as 12% of the PRC VAT payable. You may refer to "**PRC tax considerations**" under the section headed "**Risk Factors**" in the Explanatory Memorandum for more details.

In light of the above, prior to 7 November 2018, the Manager had made a provision in an amount equal to the total of (i) for PRC VAT, 6% of the bond coupon interest (except PRC government bonds or local government bonds) received by the Sub-Fund for the period from 1 May 2016 to 6 November 2018; plus (ii) for the potential local surtaxes on PRC VAT, 12% of the PRC VAT amount stated in (i). In other words, the provision for PRC VAT and local surtaxes equalled to 6.72% of the bond coupon interest (except PRC government bonds or local government bonds) received by the Sub-Fund. The amount of provision with respect to withholding PRC VAT on coupon interest and surcharges on coupon interest amounted to RMB 6,272.52. From 7 November 2018 and as of the

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<sup>1</sup> "PRC Securities" generally mean PRC shares (including China A-Shares, China B-Shares and China H-Shares), Renminbi denominated corporate and government bonds, securities investment fund and warrants listed on any stock exchanges (including but not limited to stock exchanges in the PRC, Hong Kong, Singapore, London and the United States).

date of this notice, the Manager, having consulted independent and professional tax advice, no longer makes provision for PRC VAT and local surtaxes in respect of bond coupon interest received.

(c) *Total amount of PRC tax provisions and PRC tax clearance* - The total amount of the withholding tax and VAT provisions made ("**PRC Tax Provisions**") amounts to RMB 1,430,795.98 for the period from 1 January 2015 to the financial year ended 31 December 2023, which accounts to approximately 257% of the Net Asset Value of Class A Units as at 31 March 2024. For the avoidance of doubt, this provision amount has been deducted from the calculation of the Net Asset Value of the Sub-Fund on the date of this notice, and the cash proceeds derived from the realisation of all underlying investments of the Sub-Fund to be distributed to Relevant Unitholder(s) immediately after the Dealing Deadline shall be net of this provision amount.

We will perform tax filing on around 3 June 2024 with the relevant PRC tax authorities to settle the Sub-Fund's PRC tax liabilities as described above.

Based on the independent professional tax advice and having regard to the timeframe generally needed to obtain the PRC tax clearance, we expect that such tax clearance will be obtained from the relevant PRC tax authority in around 2 months from the date of this notice (i.e. around 14 June 2024) (the "**PRC Tax Clearance Date**").

If, upon the settlement of PRC tax with the PRC tax authorities, the total amount of provisions made by the Sub-Fund for discharging its contingent liabilities is lower than the final PRC tax liabilities, the Manager will bear the shortfall. If the provision is higher than the final PRC tax liabilities, the Manager will, after having consulted with the Trustee, make a further distribution to the Relevant Unitholder(s). Please refer to the sub-section headed "**Refund of the PRC Tax Provisions**" below for further details on such distribution arrangements.

#### **G. Arrangements after the Dealing Deadline**

All Units in the Sub-Fund remaining in issue after the Dealing Deadline will be compulsorily redeemed at the applicable Net Asset Value per Unit as at the Dealing Deadline, free of any redemption charge. We will realise all the underlying investments of the Sub-Fund and it is expected that the Sub-Fund will only hold cash from the Dealing Deadline. Immediately after the Dealing Deadline, all available cash of the Sub-Fund will be distributed to the Relevant Unitholders in proportion to their holdings of those Units in the Sub-Fund as at the Dealing Deadline. For the avoidance of doubt, the proceeds will be net of the amounts of the PRC Tax Provisions which are already deducted from the total assets of the Sub-Fund on the date of this notice. Such distribution would be made on or before the 7<sup>th</sup> Business Day after the Dealing Deadline of an amount equal to the Sub-Fund's Net Asset Value per Unit multiplied by the Relevant Unitholder's number of Units held in the Sub-Fund as at the Dealing Deadline, and in any event no later than one calendar month after the Dealing Deadline.

##### Refund of the PRC Tax Provisions

After PRC tax settlement and clearance, in the event that the tax charged by the PRC tax authorities is less than the PRC Tax Provisions, we will, after consultation with the Trustee, make a further distribution to the Relevant Unitholder(s) in respect of Units of the Sub-Fund held and in proportion to their holdings of the Sub-Fund as at the Dealing Deadline. This distribution represents the excess in the PRC Tax Provisions over the actual taxes charged by the PRC tax authorities in respect of the Sub-Fund ("**Excess Tax Distribution**") and will be distributed as soon as reasonably practicable to the Relevant Unitholder(s) in respect of the holdings as at the Dealing Deadline, which is expected to be within two weeks after the PRC tax settlement, and in any event before the Termination Date.

**IMPORTANT: Please note that if you dispose of your Units at any time on or before the Dealing Deadline, you will not, in any circumstances, be entitled to any portion of the Excess Tax Distribution in respect of any Units so disposed of. You should therefore exercise caution and consult your professional and financial advisers before dealing in your Units or otherwise deciding on any course of actions to be taken in relation to your Units.**

We will provide the Relevant Unitholder(s) with the results of the PRC tax settlement and clearance and/or refund of the Excess Tax Distribution (if any), and advise the Termination Date by way of notice. In the event that the PRC tax settlement and clearance cannot be achieved by 14 June 2024 and/or the Sub-Fund cannot be terminated by 16 July 2024, we will also provide you with an update on the status and an amended Termination Date by way of notice.

The relevant distributions above, including the refund of the Excess Tax Distribution (if any), will, subject to the applicable laws and the applicable provisions of the Trust Deed, operate to discharge the Manager and the Trustee in full any liability or obligation they may owe to the relevant investor in respect of such excess provisions in the Sub-Fund.

#### **H. Hong Kong tax implications**

As the Sub-Fund is a collective investment scheme authorised under section 104 of the Securities and Futures Ordinance, profits of the Sub-Fund derived from realisation of its assets are exempt from Hong Kong profits tax. Where the investors do not carry on a trade, profession or business in Hong Kong or the Units in a Sub-Fund are held by the investors as capital assets for Hong Kong profits tax purposes, gain arising from sale, realisation or other disposal of Units in the Sub-Fund should generally not be subject to tax. For investors carrying on a trade, profession or business in Hong Kong, such gains may be subject to Hong Kong profits tax if the gains in question arise in or are derived from the trade, profession or business and sourced from Hong Kong and are of a trading nature. Whether an asset is of “trading” or “capital” in nature will depend on the particular circumstances of each of the investors. Unitholders are recommended to consult their professional advisers on the consequences to them arising from the termination of the Sub-Fund.

No Hong Kong stamp duty is payable by Unitholders in relation to the issue or redemption of Units.

#### **I. Documents available for inspection**

The latest Explanatory Memorandum, Product Key Facts Statement of the Sub-Fund and the Trust Deed (including any supplemental deeds), all material contracts (as specified in the Explanatory Memorandum) and the latest financial reports of Fund and the Sub-Fund will be available during usual business hours on any weekday (from 9:00 a.m. to 6:00 p.m., Saturdays, Sundays and public holidays excepted) at the offices of the Manager upon payment of a reasonable fee. The Explanatory Memorandum and the Product Key Facts Statement of the Sub-Fund are also be made available on the website of the Manager at <https://www.cmschina.com.hk/en/AM/FundProduct?view=CHOF><sup>2</sup>.

If you have any questions or require further information, please contact the Manager at 48/F One Exchange Square, 8 Connaught Place, Central, Hong Kong, or by telephone at (852) 2530 0698.

Yours faithfully,

For and on behalf of

**CMS Asset Management (HK) Co., Limited** as the Manager  
of the Fund and the Sub-Fund

8 April 2024

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<sup>2</sup> Please note that the website has not been reviewed by the SFC.