

**GF INVESTMENT FUNDS**  
(the “Fund”)

**GF China RMB Fixed Income Fund**  
(the “Sub-Fund”)

**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 February 2012 in respect of the Sub-Fund, as amended by the First Addendum dated June 2012, the Second Addendum dated January 2013, the Third Addendum dated March 2013, the Fourth Addendum dated March 2014, the Fifth Addendum dated April 2014, the Sixth Addendum dated December 2014 and the Seventh Addendum dated July 2016 (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. GF Asset Management (Hong Kong) 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.

08 November 2016

Dear Unitholders

**Enhancement of PRC tax disclosure, change in PRC tax provisioning policy and United States (“US”) Foreign Account Tax Compliance Act (“FATCA”)**

We are writing to inform you of the following updates of the Sub-Fund:

**(i) PRC taxation and PRC tax provisions**

*Change in PRC Tax Provisioning Policy*

(a) Capital Gain Tax on China A-Shares

Prior to 17 November 2014, the Manager made provisions for any PRC taxes payable by the Sub-Fund on the gross realised capital gains derived from China A-Shares at a rate of 10%.

Pursuant to the “Notice on the Temporary Exemption of Enterprise Income Tax (“**EIT**”) on Gains derived from the Transfer of PRC Equity Investment Assets such as PRC Domestic Stocks by Qualified Foreign Institutional Investor (“**QFII**”) and Renminbi Qualified Foreign Institutional Investor (“**RQFII**”)” (Circular Caishui [2014] No. 79) (“**Circular 79**”)<sup>1</sup> and based on professional and independent tax advice, the Manager has ceased to make provisions on withholding income tax (“**WIT**”) on capital gains derived from investments in China A-Shares from 17 November 2014 onwards.

(b) Capital Gain Tax on RMB Fixed Income Securities

Prior to 8 June 2016, the Manager made provisions for any PRC taxes payable by the Sub-Fund on gross realised capital gains derived from RMB fixed income securities.

The Manager has reviewed such PRC tax provisioning policy. After having taken professional and independent tax advice, considered the latest information in respect of the implementation of WIT and consulted BOCI-Prudential Trustee Limited, the Trustee of the Sub-Fund, the Manager has decided to cease to make provisions on capital gains derived from RMB fixed income securities with effect from 8 June 2016 and to reverse all such WIT provisions made from the date of inception of the Sub-Fund to 7 June 2016.

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<sup>1</sup> Pursuant to Circular 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; whereas for such gains earned by QFIIs and RQFIIs prior to 17 November 2014, EIT will be imposed in accordance with the PRC Enterprise Income Tax Law.

(c) Tax on Interest Income derived from Policy Bank Bonds

As stipulated in the Explanatory Memorandum of the Sub-Fund, interests derived from government bonds are exempt from PRC income tax under the EIT Law. Policy bank bonds, which are bonds issued by policy banks in China (i.e. China Development Bank, Agricultural Development Bank of China and The Export-Import Bank of China), are often regarded as quasi-government bonds. Prior to 8 June 2016, the Manager did not make any provisions on interest income derived from policy bank bonds in respect of the Sub-Fund.

The Manager has reviewed the PRC tax provisioning policy on interest income derived from policy bank bonds. Having taken professional and independent tax advice, considered the latest information in respect of the implementation of WIT and consulted BOCI-Prudential Trustee Limited, the Trustee of the Sub-Fund, the Manager has decided to make provisions on interest income derived from policy bank bonds from 17 November 2014 onwards and considers that it is in the best interest of the Sub-Fund to make such provisions.

(d) PRC Tax Provisioning Policy

Based on professional and independent tax advice, the Manager has decided, from 17 November 2014 onwards, to make provisions for any PRC taxes payable by the Sub-Fund on (i) dividend from China A-Shares and (ii) interest from RMB denominated corporate bonds and policy bank bonds (but excluding PRC government bonds) at a rate of 10% (or as otherwise advised by the Sub-Fund's tax adviser), if the relevant WIT is not withheld at source, unless specifically exempt or reduced under relevant double tax treaties. The Sub-Fund will not make any WIT on capital gains derived from investments in China A-Shares, nor will it make any WIT provision on capital gains derived from RMB fixed income securities. The Manager considers that it is in the best interest of the Sub-Fund to make such change in the PRC tax provisioning policy.

BOCI-Prudential Trustee Limited, the Trustee of the Sub-Fund, has also confirmed that it has no objection to the aforesaid change in the PRC tax provisioning policy.

*Tax Reporting, Tax Treaty Application and Tax Payment to Beijing Tax Bureau*

Upon the request of the Beijing Xicheng State Tax Bureau (“**Beijing Tax Authority**”), the RQFII Holder submitted the requested information and documents on behalf of the Sub-Fund to the Beijing Tax Authority on 14 October 2015 for tax clearance on the gross realised capital gains derived from China A-Shares, dividend and interest (including those from policy bank bonds) of the Sub-Fund for the period from the date of inception of the Sub-Fund to 16 November 2014, both days inclusive.

The RQFII Holder's tax reporting included the submission that the Sub-Fund is eligible for tax relief under a tax treaty, namely, 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 (“**PRC-HK Arrangement**”) regarding the gross realised capital gains derived from the trading of PRC equity investment assets of Non-Land Rich Companies<sup>2</sup> prior to 17 November 2014. The Beijing Tax Authority accepted the Sub-Fund's aforesaid tax treaty application and, as a result, capital gains derived from the transfers of China A-Shares of Non-Land Rich Companies are not subject to WIT.

Circular 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. As such, based on professional and independent tax advice, the RQFII Holder did not submit any information and documents on behalf of the Sub-Fund to the Beijing Tax Authority for tax clearance on the gross realised capital gains derived from RMB fixed income securities.

The Beijing Tax Authority determined that the Sub-Fund is subject to a total tax liability (excluding late payment surcharge) of RMB4,129,489.69 (“**Tax Liability**”) for its dividend from China A-Shares and interest income (including those from RMB denominated fixed income securities, policy bank bonds and bank deposits) and a late payment surcharge<sup>3</sup> on dividend from China A-Shares and interest income (including those from and RMB denominated fixed income securities, policy bank bonds and bank deposits) amounting to RMB1,834,199.70 (“**Late Payment Surcharge**”) since its inception to 16 November 2014. On 8 June 2016, the Sub-Fund made a tax payment

<sup>2</sup> “Non-Land Rich Companies” are companies with less than 50% of the assets comprised directly or indirectly of immovable property situated in the PRC.

<sup>3</sup> According to the PRC Law of Administration of Tax Levying, “late payment surcharge” arises when any tax payments (as the taxpayer) or tax payments for amounts which are required to be withheld (as the withholding agent) are not being paid or withheld on time. Late payment surcharge is chargeable at a rate of 0.05% per day from the day when the tax is due.

in full settlement of the Tax Liability and Late Payment Surcharge and received a tax payment certificate as confirmation.

The Manager considers it appropriate for the Sub-Fund to bear the Late Payment Surcharge based on the following reasons:-

- (i) as advised by the tax adviser of the Sub-Fund, prior to the issue of Circular 79, the Beijing Tax Authority did not accept RQFIIs to self-report and settle any PRC tax on capital gains derived from equity investments and dividend from equity investments and interests derived from fixed income securities investments. It was not until February 2015 that the Beijing Tax Authority informed RQFIIs that they could make such tax filing and back file any WIT generated from the previous periods up to 16 November 2014. Given that the Sub-Fund was only permitted to make the tax filing retrospectively to the Beijing Tax Authority on 14 October 2015 for its WIT liability for the period from the date of its inception to 16 November 2014, it is unavoidable that the Sub-Fund would be subject to a late payment surcharge. In other words, the Late Payment Surcharge was not caused by any fault or negligence on the part of the Manager; and
- (ii) it is provided in the Trust Deed and the Explanatory Memorandum that certain charges or liabilities such as taxes and governmental charges may be deductible from the assets of the Sub-Fund.

The Manager, after consulting and obtaining consent of the Trustee and based on professional and independent tax advice, considered that the Late Payment Surcharge could be deducted from the assets of the Sub-Fund.

In view of the determination by the Beijing Tax Authority that the Sub-Fund is eligible for the PRC-HK Arrangement benefit for exemption from the WIT for the gross realised capital gains derived from trading of Non-Land Rich China A-Shares and the assumption that the Sub-Fund should also be exempted from WIT on gross realised gain from trading of RMB fixed income securities under PRC-HK Arrangement, based on the professional and independent tax advice, the Manager decided that the WIT provisions made for the capital gains from China A-Shares and RMB fixed income securities were to be reversed.

#### *Impact on Net Asset Value*

The Manager, having taken and considered professional and independent tax advice, had made the related adjustments arising from (i) the under-provision/shortfall in the WIT provision on interest income derived from policy bank bonds and bank deposits as a result of the payment of the Tax Liability from the inception of the Sub-Fund to 16 November 2014 (“**Shortfall in WIT Provisions**”); (ii) the Late Payment Surcharge; (iii) the provisions on interest income derived from policy bank bonds made by the Manager for the period from 17 November 2014 onwards (“**Tax Provisions on Policy Bank Bonds**”); and (iv) the reversal of the WIT provisions made for the capital gains from (a) China A-Shares from the inception of the Sub-Fund to 16 November 2014 and (b) RMB fixed income securities from the inception of the Sub-Fund to 7 June 2016 (“**Reversal of CGT Provisions**”) on 8 June 2016. As a result of the adjustments, there was a shortfall of RMB2,905,916.58 which had to be paid out of the Sub-Fund’s asset.

Having taken and considered professional and independent tax advice, the Net Asset Value per Unit were adjusted to reflect the above on 8 June 2016, with details set out below:

| Event                                   | Amount           | Class A                         |  | Class I                         |  |
|---|------------------|---------------------------------|--|---------------------------------|--|
|   |                  | Effect of Each Event on Class A | Effect on Net Asset Value per Unit / Percentage Change per Unit of Class A | Effect of Each Event on Class I | Effect on Net Asset Value per Unit / Percentage Change per Unit of Class I |
| (a) Shortfall in WIT Provisions         | -RMB122,557.69   | -RMB11,129.55                   | -RMB0.039 / -0.04%   | -RMB111,428.14                  | -RMB0.04 / -0.038%   |
| (b) Late Payment Surcharge              | -RMB1,834,199.70 | -RMB166,564.89                  | -RMB0.588 / -0.57%   | -RMB1,667,634.81                | -RMB0.600 / -0.572%  |
| (c) Tax Provisions on Policy Bank Bonds | -RMB4,576,920.52 | -RMB415,633.19                  | -RMB1.467 / -1.44%   | -RMB4,161,287.33                | -RMB1.497 / -1.44%   |
| (d) Reversal of CGT Provisions          | +RMB3,627,761.33 | +RMB329,439.42                  | +RMB1.163 / +1.14%   | +RMB3,298,321.91                | +RMB1.187 / +1.14%   |
| Net Effect of (a), (b), (c) and (d)     | -RMB2,905,916.58 | -RMB263,888.21                  | -RMB0.931 / -0.91%   | -RMB2,642,028.37                | -RMB0.950 / -0.91%   |

BOCI-Prudential Trustee Limited, the Trustee of the Sub-Fund has no objection to the above adjustment.

## PRC Tax Risks

The Sub-Fund may be subject to the risks and uncertainties associated with changes in the PRC laws and regulations, including PRC tax laws, regulations and practice and such changes may have retrospective effect and may adversely affect the Sub-Fund's asset value.

Any provisions for taxes in the PRC made by the Sub-Fund may be excessive or inadequate to meet the actual tax liabilities. In case of any shortfall between the provisions and actual tax liabilities, which will be debited from the Sub-Fund's assets, the Net Asset Value of the Sub-Fund will therefore be adversely affected. Depending on the timing of their subscriptions and/or redemptions, investors may be disadvantaged as a result of any shortfall of tax provision and will not have the right to claim any part of the overprovision (as the case may be).

## **(ii) Implementation of FATCA**

### *FATCA Regime*

Under the US Foreign Account Tax Compliance Act, or FATCA, all entities in a broadly defined class of non-US financial institutions (i.e. foreign financial institutions or "FFI"s), are required to comply with a complicated and expansive reporting regime. In order to be a FATCA compliant, an FFI, such as the Fund and the Sub-Fund (and, generally, other investment funds organised outside the US), generally will be required to enter into an agreement (an "FFI Agreement") with the US Internal Revenue Service (the "US IRS") under which it will agree to identify its direct or indirect owners who are United States persons and report certain information concerning such United States person owners to the US IRS.

In general, an FFI which does not sign an FFI Agreement or is not otherwise exempt will face a punitive 30% withholding tax on all "withholdable payments" derived from US sources, including dividends, interest and certain derivative payments with effect from 1 July 2014. In addition, starting from 1 January 2019, gross proceeds such as sales proceeds and returns of principal derived from stocks and debt obligations generating US source dividends or interest will be treated as US "withholdable payments".

### *Details of Intergovernmental Agreement*

The Hong Kong government signed an intergovernmental agreement with the US ("IGA") for the implementation of FATCA on 13 November 2014, adopting "Model 2" IGA arrangements. Under this "Model 2" IGA arrangements, FFIs in Hong Kong (such as the Fund and the Sub-Fund) would be required to enter into the FFI Agreement with the US IRS, register with the US IRS and comply with the terms of FFI Agreement. Otherwise they will be subject to a 30% withholding tax on US "withholdable payments".

As an IGA has been signed between Hong Kong and the US, FFIs in Hong Kong (such as the Fund and the Sub-Fund) complying with the FFI Agreement (i) will generally not be subject to the above described 30% withholding tax; and (ii) will not be required to withhold tax on payments to recalcitrant accounts/non-consenting US accounts (i.e. accounts of which the holders do not consent to FATCA reporting and disclosure to the US IRS) or close those recalcitrant accounts/non-consenting US accounts (provided that information regarding such recalcitrant account/non-consenting US account holders is reported to the US IRS), but may be required to withhold tax on payments made to non-compliant FFIs.

### *FATCA Status*

The Fund and each Sub-Fund have already entered into FFI Agreement with the US IRS and registered with the US IRS as a single FFI with Global Intermediary Identification Number (GIIN) C2H889.99999.SL.344.

The Fund and each Sub-Fund endeavour to satisfy the requirements imposed under FATCA and the FFI Agreement to avoid any withholding tax. In the event that the Fund or any Sub-Fund is not able to comply with the requirements imposed by FATCA or the FFI Agreement and the Fund or such Sub-Fund does suffer US withholding tax on its investments as a result of non-compliance, the Net Asset Value of the Fund or that Sub-Fund may be adversely affected and the Fund or such Sub-Fund may suffer significant loss as a result.

### *Impact to Unitholders*

In the event a Unitholder does not provide the requested information and/or documentation, whether or not that actually leads to compliance failures by the Fund or the relevant Sub-Fund, or a risk of the Fund or the relevant Sub-Fund being subject to withholding tax under FATCA, the Manager on behalf of the Fund and each of such relevant Sub-Fund reserves the right to take any action and/or pursue all remedies at its disposal including, without limitation,

(i) reporting the relevant information of such Unitholder to the US IRS; (ii) withholding or deducting from such Unitholder's redemption proceeds or distributions to the extent permitted by applicable laws and regulations; and/or (iii) deeming such Unitholder to have given notice to redeem all his Units in the relevant Sub-Fund. The Manager in taking any such action or pursuing any such remedy shall act in good faith and on reasonable grounds.

Each Unitholder and prospective investor should consult with his own tax advisor as to the potential impact of FATCA in its own tax situation.

*Certification for Compliance with FATCA or other Applicable Laws*

Each investor (i) shall be required to, upon demand by the Trustee or the Manager, provide any form, certification or other information reasonably requested by and acceptable to the Trustee or the Manager that is necessary for the Fund or a Sub-Fund (A) to prevent withholding (including, without limitation, any withholding taxes required under FATCA) or qualify for a reduced rate of withholding or backup withholding in any jurisdiction from or through which the Fund or the relevant Sub-Fund(s) receives payments and/or (B) to satisfy reporting or other obligations under the US Internal Revenue Code of 1986, as amended (the “**US IRS Code**”) and the US Treasury Regulations promulgated under the US IRS Code, or to satisfy any obligations relating to any applicable law, regulation or any agreement with any tax or fiscal authority (ii) will update or replace such form, certification or other information in accordance with its terms or subsequent amendments, and (iii) will otherwise comply with any reporting obligations imposed by the US, Hong Kong or any other jurisdiction, including reporting obligations that may be imposed by any future law, regulation or agreement.

*Power to Disclose Information to Tax Authorities*

Subject to applicable laws and regulations in Hong Kong, the Fund, the relevant Sub-Fund(s), the Trustee or the Manager or any of their authorised person(s) (as permissible under applicable law or regulation) may be required to report or disclose to any government agency, regulatory authority or tax or fiscal authority in any jurisdictions (including but not limited to the US IRS), certain information in relation to a Unitholder, including but not limited to the Unitholder's name, address, tax identification number (if any), social security number (if any) and certain information relating to the Unitholder's holdings, to enable the Fund or the relevant Sub-Fund(s) to comply with any applicable law or regulation or any agreement with a tax authority (including, but not limited to, any applicable law, regulation or agreement under FATCA).

Unitholders should seek their own tax advice on their tax position with regard to their investments in the Sub-Fund.

The Explanatory Memorandum and the Product Key Facts Statement (“**KFS**”) in respect of the Sub-Fund have been amended to reflect the foregoing clarifications. Should you wish to obtain a copy of the latest Explanatory Memorandum and KFS, please visit <http://www.gfgroup.com.hk/>. Please note that the aforesaid website has not been reviewed by the SFC.

Should you have any questions about the change described above, please contact us at 852 3719 1100.

**GF Asset Management (Hong Kong) Limited**