



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

Capitalised terms in this notice have the same meaning as in the Explanatory Memorandum of the Fund unless otherwise specified.

19 December 2014

Dear unitholder,

**HSBC Investment Funds Trust (the “Fund”) –  
HSBC China Momentum Fund  
HSBC China Growth Fund (the “Sub-Funds”)**

We would like to inform you of certain changes to above funds.

## **I. CHANGES TO INVESTMENT POLICY OF THE SUB-FUNDS**

### **1. Background**

When the Sub-Funds were launched initially, direct access to the China domestic securities market was restricted. At that time, direct investment in the China domestic securities market was permitted only for entities that have obtained the Qualified Foreign Institutional Investor (or “QFII”) status. As the Manager and the Sub-Funds did not have such status, it was envisaged that exposure to China A-shares for the Sub-Funds would be obtained through investment in equity linked notes and other similar equity linked securities and instruments issued by institutions that have obtained the QFII status (collectively referred to as “ELN”).

The “Shanghai-Hong Kong Stock Connect” is a securities trading and clearing links programme developed by Hong Kong Exchanges and Clearing Limited (“HKEx”), Shanghai Stock Exchange (“SSE”) and China Securities Depository and Clearing Corporation Limited (“ChinaClear”), aiming to achieve mutual stock market access between mainland China and Hong Kong.

The Sub-Funds may invest in eligible China A-shares listed on the Shanghai Stock Exchange directly through the Shanghai-Hong Kong Stock Connect, subject to applicable quota limitations.

### **2. Change of Investment Policy**

With effect from 17 November 2014, the investment policies of the Sub-Funds have been changed, in order to provide for the flexibility to invest in China A-shares through the Shanghai-Hong Kong Stock Connect. Such investment does not exceed 10% of each Sub-Fund’s net asset value.

For the avoidance of doubt, each Sub-Fund’s aggregate exposure to China A-shares remains unchanged. The Manager believes that the revised investment policy will enable the Manager to manage the Sub-Funds in a more flexible manner, and the broadened scope of investments will be in the interest of the Sub-Funds.

Please note that, notwithstanding the above changes, the Manager is not obliged to invest through the Shanghai-Hong Kong Stock Connect on behalf of the Sub-Funds. As such, the Sub-Funds will continue to invest in ELN linked to the performance of China A-shares to achieve their investment objectives.

Pursuant to the “Circular on the Taxation Policy of the Pilot Programme for the Mutual Stock Market Access between Shanghai and Hong Kong Stock Markets” promulgated by the Ministry of Finance, the State Administration of Taxation and the China Securities Regulatory Commission on 14 November 2014, corporate income tax and business tax shall be exempt on a temporary basis on the gains earned by Hong Kong market investors (including corporate and individual investors) from the transfer of China A-shares listed on the Shanghai Stock Exchange. Based on the foregoing circular, the Manager has decided that the Sub-Funds will not withhold any amount of realised or unrealised gains on their investments in China A-shares through Shanghai-Hong Kong Stock Connect as tax provisions.

## **II. CHANGES TO THE TAX PROVISION PRACTICE OF THE SUB-FUNDS**

### **1. Tax Provision Practice Prior to 14 November 2014**

The Sub-Funds currently invests in ELN linked to China A-shares.

As disclosed in the Explanatory Memorandum of the Fund, the Manager has the right to provide for withholding tax on the relevant gains or income and withhold the tax for the account of the Sub-Funds.

Schedule 1 to the trust deed constituting the Fund dated 13 November 1995 (as amended and/or supplemented from time to time) provides that, in calculating the net asset value: (i) the liabilities attributable to each Sub-Fund include the amount of tax on capital gains accrued attributable to the Sub-Fund up to the end of the last financial year remaining unpaid; and (ii) there shall be taken into account such sum (if any) as in the estimate of the Manager will fall to be paid or reclaimed for the account of such Sub-Fund in respect of taxation related to income and transactions down to the date as at which the relevant valuation is made.

As there are risks and uncertainties associated with China's tax rules and practice, it has been the Sub-Funds' practice to withhold (or cause the ELN issuers to withhold) a 10% provision on the potential tax with respect to the realised and unrealised gains from their investments in ELN linked to China A-shares.

### **2. The Circular**

On 14 November 2014, the Ministry of Finance, the State Administration of Taxation and the China Securities Regulatory Commission have jointly promulgated the *Circular Concerning the Temporary Exemption of the Enterprise Income Tax for Gains Earned by QFII and RQFII from Transfer of Domestic Shares and Other Equity Interest Investment in China* (the "Circular").

According to the Circular, amongst other things:

- (i) enterprise income tax shall be exempt on a temporary basis on the gains earned by qualified foreign institutional investors ("QFIIs") from the transfer of domestic shares and other equity interest investment in China with effect from 17 November 2014; and
- (ii) enterprise income tax shall be imposed on such gains earned by QFIIs before 17 November 2014 in accordance with the tax laws.

The Circular is applicable for QFIIs without any establishment or place in China or the income derived by the QFIIs are not effectively connected with their establishment or place in China.

### **3. Implication of the Promulgation of the Circular**

As a result of the promulgation of the Circular, the Manager has decided on the following changes to the tax provision practice of the Sub-Funds:

- (i) the Sub-Funds have ceased to withhold 10% of unrealised gains on their investments in ELN linked to China A-shares as a tax provision from 14 November 2014 (the last Valuation Day before 17 November 2014) on the basis that any gains subsequently realised from 17 November 2014 onwards will be temporarily exempt from enterprise income tax;
- (ii) the amount of tax provision for unrealised gains on the Sub-Funds' investments in ELN linked to China A-shares withheld by the Sub-Funds as a tax provision up to 14 November 2014 has been released to the Sub-Funds. This has a positive impact on the net asset value of each Sub-Fund (equal to 0.031% (or US\$0.013 per unit) of the net asset value of the HSBC China Momentum Fund and 0.031% (or US\$0.003 per unit) of the net asset value of the HSBC China Growth Fund);
- (iii) the Sub-Funds have ceased to withhold (or ceased to request the ELN issuers to withhold) 10% of realised gains on their investments in ELN linked to China A-shares as a tax provision from 17 November 2014; and
- (iv) the Sub-Funds will continue to (or continue to request the ELN issuers to) retain the amount withheld up to and including 14 November 2014 as a tax provision with respect to realised gains on their investments in ELN linked to China A-shares.

These changes are considered by the Manager to be in the best interest of the Sub-Funds and the unitholders after taking into account professional tax advice and would not prejudice interests of the unitholders. Further, the Trustee has been notified and has no objection to the change in tax provision practice.

Notwithstanding the promulgation of the Circular, it remains uncertain as to how gains or income that may be derived from the Sub-Funds' investments in ELN linked to China A-shares prior to 17 November 2014 will be taxed. Please note any tax provision (including provisions previously made which will be retained by the Sub-Funds or withheld by the ELN issuers) may be more than or less than the Sub-Funds' actual tax liabilities. In the event that the Manager considers that the tax provisions of the Sub-Funds are not sufficient, it will consider making additional tax provision. In the event that the Manager is satisfied that part of the tax provisions are not required, such provisions will be released back into the Sub-Funds. Any tax provision, if made, will be reflected in the net asset value of the Sub-Funds at the time of debit or release of such provision and thus will only impact on units which remain in the Sub-Funds at the time of debit or release of such provision. Units which are redeemed prior to the time of debit of such provision will not be affected by reason of any insufficiency of the tax provision. Likewise, such units will not benefit from any release of excess tax provisions. In addition, the Manager may in its discretion make further modification to the tax provision practice of the Sub-Funds as more clarity is sought on the relevant regulations, and further notification will be made accordingly.

Investors may be advantaged or disadvantaged depending upon how gains on securities linked to China A-shares (such as ELN) will ultimately be taxed and when the investors subscribed for and/or redeemed the units of the Sub-Funds. Investors should note that no unitholders who have redeemed their units in the Sub-Funds before the release 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 Sub-Funds, which amount will be reflected in the net asset value of units of the Sub-Funds.

### **Documents and Enquiries**

Copies of the offering documents containing information of the above funds will be updated to reflect the above-mentioned changes.

If you have any questions, please direct them to your financial adviser or usual HSBC contact or alternatively you should contact the Manager at Level 22, HSBC Main Building, 1 Queen's Road Central, Hong Kong (telephone number: (852) 2284 1229).

The Manager accepts full responsibility for the accuracy of the information contained in this letter as at the date of its issuance.

**The Manager**  
**HSBC Investment Funds (Hong Kong) Limited**