

IMPORTANT: This letter requires your attention. If you have any questions about the content of this letter, you should seek independent professional advice. Schroder Investment Management (Hong Kong) Limited ("the Manager") accepts full responsibility for the accuracy of the information contained in this document 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.

Unless otherwise stated herein, capitalised terms in this letter shall have the same meaning(s) as defined in the Explanatory Memorandum of the Schroder China Asset Income Fund dated October 2018, as amended and supplemented from time to time (the "**Explanatory Memorandum**").

3 May 2019

Dear Unitholder,

SCHRODER UMBRELLA FUND II - SCHRODER CHINA ASSET INCOME FUND (the "Fund")

We are writing to inform you of the following change (the "Change") to the Fund.

A. Changes in the Mainland China Withholding Income Tax Provisioning Policy

As disclosed in the Explanatory Memorandum, the Manager at present makes provisions from the Fund's assets for mainland China withholding income tax ("WIT") at a rate of 10% in respect of dividends distributed and interests paid by mainland China tax resident enterprises where such mainland China WIT has not been withheld at source.

On 22 November 2018, the Ministry of Finance ("MOF") and State Administration of Taxation ("SAT") jointly issued circular Caishui [2018] No. 108 (Circular 108), which stipulates that foreign institutional investors are exempt from mainland China WIT and Value-added Tax ("VAT") in respect of bond interest income received from 7 November 2018 to 6 November 2021 from investments in the China bond market. Caishui [2018] No. 108 (Circular 108) is silent on the mainland China WIT and VAT treatment of bond interest before 7 November 2018.

In light of the above, the Manager, having taken and considered independent professional tax advice, has determined the Fund's mainland China WIT tax provisioning policy will be as follows:

- (i) Continue to provide for mainland China WIT of 10% on interest income accrued prior to 7 November 2018 from mainland China issued bonds.

- (ii) No further provision will be made in respect of mainland China WIT for the period stipulated in Caishui [2018] No. 108.
- (iii) Holdings in bond like securities that do not technically fall into the definition of China bond market will be monitored by the Manager for material exposure for the Fund. Further advice and clarification on particular securities will be sought from professional tax advisors if any holdings in these securities becomes material to the Fund.

B. Changes in the VAT Provisioning Policy

As disclosed in the Explanatory Memorandum, the Manager does not make provision from the Fund's assets for VAT on interest income arising on non-government fixed income securities listed in mainland China and offshore by mainland China issuers. No provision has been made in the past, as the Fund's exposure to VAT is not material.

In light of Caishui [2018] No. 108 (Circular 108), the Manager, having taken and considered independent professional tax advice, has determined the Fund's mainland China VAT provisioning policy will be as follows:

- (i) Recognise a provision for VAT at 6.3% of relevant items arising before 7 November 2018. Given the ambiguity of VAT treatment before 7 November 2018, the Manager, having taken and considered independent professional tax advice, considers this approach as prudent. The making of this provision will be reflected in the Fund's net asset value on the Dealing Day of 3 May 2019.
- (ii) No provision will be made in respect of mainland China VAT for the period after 7 November 2018 stipulated in Caishui [2018] No. 108.
- (iii) Holdings in bond like securities that do not technically fall into the definition of China bond market will be monitored by the Manager for material exposure for the Fund. Further advice and clarification on particular securities will be sought from professional tax advisors if any holdings in these securities becomes material to the Fund.

C. Amendments to the Explanatory Memorandum

The Explanatory Memorandum and Product Key Facts Statement will be amended accordingly to reflect the above changes and will be available in due course.

The latest Explanatory Memorandum and Product Key Facts Statement are available upon request from the office of the Manager at Level 33, Two Pacific Place, 88 Queensway, Hong Kong and are also available on Schroders' website at www.schroders.com.hk. The website is not authorised by the SFC.

This notification is to provide you with updated information in relation to the Fund. You are not required to take any action with respect to this letter. If you would like more information, please contact your usual professional advisor or Schroders Investor Hotline on (+852) 2869 6968.

Yours faithfully,

For and on behalf of

Schroder Investment Management (Hong Kong) Limited

A handwritten signature in black ink, appearing to read 'Amy Cho', with a long, sweeping horizontal stroke extending to the right.

Amy Cho

Chief Executive Officer, Hong Kong