AMP Capital China Growth Fund
ARSN 122 303 744

ASX Announcement

16 AUGUST 2016

Manager
ASX Market Announcements
Australian Securities Exchange
Level 4, 20 Bridge Street
SYDNEY NSW 2000

Announcement No: 49/2016

AMP Capital China Growth Fund (ASX: AGF)

In accordance with ASX Listing Rule 3.17.1, attached is a letter to AMP Capital China Growth Fund to be dispatched to investors shortly.

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16 August 2016

Dear Unitholders

I am pleased to write to you today with information on the actions AMP Capital Funds Management Limited (AFSL 426455), the responsible entity (RE) of the AMP Capital China Growth Fund (the Fund), will be taking to wind up the Fund and return your proceeds as soon as practicable.

Wind up highlights

- The RE will be selling all of the underlying portfolio of China A shares (other than shares which are suspended or in trading halt[1]) as soon as is practicable.
- Net cash proceeds of sale will be held in a bank account in China in US Dollars (USD) until repatriated from China.
- Reducing base management fees to 0.40% from 1 September 2016.
- Initial distribution of profits of approximately AUD40 million (AUD0.08478 per unit) as soon as possible (but not later than 30 September 2016).
- We are permitted to repatriate RMB1,563 million (AUD305 million[2]) of the Fund's principal over a three month period and have initiated the process of doing so with our Chinese custodian.
- The repatriation of the remaining amount, being profits, requires Chinese tax and regulatory approvals which will take longer and is uncertain.
- Appointed UBS AG Australia branch (UBS) as third party financial adviser to the RE.
- Costs associated with the Extraordinary General Meeting of Unitholders held on 28 July 2016 (EGM) and the Fund's strategic reviews are detailed below.

Realisation strategy

As described in my letter to you on 5 August 2016, two main options for the sale of our portfolio of China A shares were being considered:

- **Maintain investment portfolio**: keep the investment portfolio invested in China A shares, sell those shares and distribute the net sale proceeds in tranches as soon as tax and regulatory approvals are received; or
- **Upfront sell-down**: sell down China A shares such that the investment portfolio is held in cash (in a Chinese bank account) with the net proceeds of the sell down being distributed to unitholders in tranches as soon as tax and regulatory approvals are received.

After careful review of these options and consideration of the interests of all unitholders in the Fund, we believe that the best approach is the "upfront sell-down" option. This option involves the sale of all of the underlying portfolio of China A shares (other than shares which are suspended or in trading halt[3]) as soon as is practicable.

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[1] Suspended stocks are currently approximately 5% of the portfolio. The RE will monitor any China A shares which are suspended or in trading halt and will develop a strategy in relation to their realisation.

[2] Based on the exchange rate on 11 August 2016.

[3] Suspended stocks are currently approximately 5% of the portfolio. The RE will monitor any China A shares which are suspended or trading halt and will develop a strategy in relation to their realisation.

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During the period of wind-up, the proceeds of the China A share portfolio will be held in a USD bank account until net proceeds can be repatriated for distribution to unitholders. This means that the Fund will continue to be exposed to USD/AUD. Unitholders should note that we do not currently intend to hedge this exposure to USD. If the USD depreciates over the period of wind-up, the Fund will suffer a translation loss when converted into AUD. We recommend that investors obtain their own financial advice on managing this risk.

Timing of any repatriation and distribution to unitholders

Chinese laws and regulations apply differently to the Fund's principal (being the initial amount that the Fund invested in China under its QFII quota at the Fund's inception) and the profits on that investment in China:

- Principal repatriation of the Fund (RMB1,563 million or approximately AUD305 million[4]) is not subject to an express requirement that clearance is obtained from Chinese tax authorities; and
- Profits currently require tax clearances before they are repatriated, which differ depending on when the profits were made.

Initial Distribution:
We will be making an initial pro rata distribution to unitholders of approximately AUD40 million (which equates to AUD0.08478 per unit) as soon as possible (but not later than 30 September 2016). These funds will be drawn from our exposure to China A Shares that we hold through Shanghai-Hong Kong Stock Connect[5] together with cash in Hong Kong. Repatriation of these funds is not subject to Chinese tax and regulatory approvals.

We will make a further announcement to confirm the exact amount and timetable for the initial distribution closer to the time of the distribution.

Repatriation of principal:
We will be working closely with our advisers to ensure that our applications to repatriate the principal of the Fund are processed as soon as possible. Under the regulations applied by the State Administration of Foreign Exchange (SAFE), the RE is permitted to repatriate a maximum of RMB1,563 million (approximately AUD305 million[6]) comprising: RMB616 million (approximately AUD120 million[7]) in September 2016, RMB616 million (approximately AUD120 million[8]) in October 2016, and the remaining principal of RMB331 million (approximately AUD65 million[9]) in November 2016, and has initiated the process with our Chinese custodian to do so.

Unitholders should note that the Fund has not previously sought to repatriate principal, and the rules in relation to the repatriation of principal have only recently changed. Accordingly, the process and timeframe for a full repatriation of principal remains untested, and therefore may not be in accordance with the timeframes mentioned above. Based on our past experience, uncertainty exists regarding the Chinese regulations and regulatory practice associated with repatriating profits from China and this could also be the case for the repatriation of principal.

Repatriation of profits:
The effect of Chinese tax clearances and SAFE restrictions are that profit will have to be repatriated in tranches. Profits require regulatory clearances before they can be repatriated, which differ depending on when the profits were made. The majority of remaining profits, calculated on a gross realised gains basis, are capital gains realised during the five year period ended 17 November 2014 for which taxes in China

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4 Based on the exchange rate on 11 August 2016.
5 Funds that we hold through Shanghai-Hong Kong Stock Connect are not subject to Chinese regulatory approvals.
6 Based on the exchange rate on 11 August 2016.
7 Based on the exchange rate on 11 August 2016.
8 Based on the exchange rate on 11 August 2016.
9 Based on the exchange rate on 11 August 2016.

have been agreed and paid, and now require other regulatory approvals to enable repatriation. Other profits that will require approvals relate to the period before 17 November 2009 or after 17 November 2014. We have been advised that the relevant Chinese tax authorities do not currently have an established procedure in place for the remittance of these other profits. It is therefore not possible to reliably estimate the timeframe in which it would take to obtain the remaining approvals. Once regulatory approvals are obtained, monies will be repatriated from China as soon as practicable. We are currently working with our tax advisers to gain greater certainty around the timeframe for the repatriation of profits.

Even though we are seeking to wind up the Fund as expeditiously as possible, we estimate that the final payment of the net proceeds to unitholders will take between nine and 18 months. However, as described above, our clear goal is to repatriate and distribute to unitholders a substantial proportion of the net proceeds of realised assets before 31 December 2016.

<u>Distribution Reinvestment Plan (DRP)</u>
In addition to any wind up distributions, unitholders will also receive the ordinary income distribution for the financial year ending 31 December 2016. Unitholders should note that, as the Fund is in wind up, the DRP will be cancelled before any distribution is made (unitholders will receive a notice of cancellation shortly in accordance with the plan rules).

Management fees

We stated in our letter to you on 5 August 2016 that we would review the management fee as we develop the wind up strategy for the Fund.

Now that we have determined to sell down all of the China A Shares (other than shares which are suspended or in trading halt[10]) held by the Fund, we have determined to reduce the base management fee to 0.40% per annum, effective from 1 September 2016.

Third party financial adviser

We have appointed UBS as a third party financial adviser to review the wind up strategy for the Fund.

Costs to the Fund

At the EGM, unitholders were advised that further detail in relation to costs associated with the EGM and the Fund’s strategic reviews would be set out in the half and full year financial results release for the Fund. The half year results will be released today.

The half year results include the following cost detail:
- For the year ending 31 December 2016, expenses associated with business-as-usual operations of the Fund are estimated to be approximately AUD0.9 million which on a dollar basis is comparable to those incurred in 2015. On a percentage basis, this is larger than 2015 as the size of Fund assets has reduced.
- Extraordinary expenses[11] during the seven months to 28 July 2016, the date of the EGM are estimated to be approximately AUD1.4 million, including costs of:
    - professional taxation advice associated with repatriation of funds from China following changes to Chinese tax regulations;
    - the Advisory Committee;
    - the ‘fit for purpose’ review;
    - considering further strategic options following the enhancements monitoring; and
    - preparing the Explanatory Memorandum and holding the EGM on 28 July 2016, when unitholders voted to wind up the Fund.

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[10] Suspended stocks are currently approximately 5% of the portfolio. The RE will monitor any China A shares which are suspended or in trading halt and will develop a strategy in relation to their realisation.

[11] In relation to extraordinary expenses, neither the RE nor its associates have charged any fees to the Fund above the management fees.

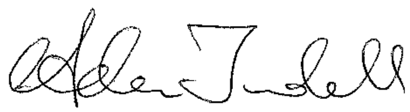
- During the five months to 31 December 2016, the Fund is also expected to incur extraordinary expenses of AUD2.3 million associated with the wind up which includes costs of:
  - realising the underlying portfolio (brokerage and duty);
  - professional taxation advice associated with repatriation of funds from China;
  - professional legal advice; and
  - the advice of UBS.

Updates

We will keep unitholders informed of all material matters during the wind up of the Fund including any implications for the listing of the Fund on the ASX. We expect to communicate to unitholders regular updates with respect to the progress of repatriation.

If you have any questions or comments our team is available to assist you. Please contact us directly on (Australia) 1800 658 404 or (Overseas) +61 2 8048 8230.

Yours sincerely,



Adam Tindall
Chairman
AMP Capital Funds Management Limited