

**ChinaAMC Select Fund
(the “Fund”)**

**ChinaAMC Select RMB Bond Fund
(the “RMB Bond 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 2014 in respect of the RMB Bond Fund, as amended from time to time (the “Explanatory Memorandum”). If you are in any doubt about the content of this notice, you should seek independent professional financial advice and/or legal advice.

All capitalized terms herein contained shall have the same meaning in this notice as in the Explanatory Memorandum. China 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.

8 December 2014

Dear Unitholder,

PRC tax provisioning policy of the RMB Bond Fund

We are writing to inform you of a change in the PRC tax provisioning policy of the RMB Bond Fund with effect from 17 November 2014 (the “**Effective Date**”).

The Ministry of Finance of the PRC (the “**MoF**”), the State Administration of Taxation of the PRC (“**SAT**”) and the China Securities Regulatory Commission (the “**CSRC**”) issued the “Notice on the issues of temporary exemption from the imposition of corporate income tax arising from gains from the transfer of equity investment assets such as PRC domestic stocks by QFII and RQFII” (“關於QFII和RQFII取得中國境內的股票等權益性投資資產轉讓所得暫免徵收企業所得稅問題的通知”) Caishui [2014] No.79 on 14 November 2014 (the “**Notice**”). The Notice states that PRC corporate income tax will be imposed on capital gains derived by QFII and RQFII from equity investment assets (including PRC domestic stocks) prior to 17 November 2014 in accordance with laws. The Notice also states that RQFIIs without an establishment or place of business in the PRC will be temporarily exempt from corporate income tax on gains derived from the trading of PRC A-Shares effective from 17 November 2014. The Notice, however, does not cover gains derived from transfers of PRC debt securities.

Impact on the RMB Bond Fund

The Manager changed its PRC withholding income tax (“WIT”) provisioning policy effective from 18 August 2014 for the RMB Bond Fund so that no WIT provision was made on the gross realised and unrealised capital gains derived from investments in PRC RMB Fixed Income Securities and in PRC A-Shares, except for those gross realised and unrealised capital gains derived from investment in PRC A-Shares issued by PRC tax resident companies which are land rich companies (i.e. PRC companies in which 50% or more of their assets are comprised, directly or indirectly, of immovable properties situated in the PRC). The Manager also, on 18 August 2014, reversed the WIT provision made on the capital gains derived from PRC RMB Fixed Income Securities and PRC A-Shares, except for those gross realised capital gains derived from the previous disposal of PRC A-Shares issued by PRC tax resident companies which are land rich companies. The above changes were made by the Manager after considering independent professional tax advice and acting in accordance with such advice.

As stated in the Explanatory Memorandum, there were uncertainties in the laws and regulations regarding tax treatment on capital gains, and any tax provision on capital gains made by the Manager in respect of the RMB Bond Fund may be less than the RMB Bond Fund’s actual tax liabilities.

Provisioning of WIT and impact on the Net Asset Value of the RMB Bond Fund

The Notice stipulates that RQFIIs would be subject to WIT on gains derived from trading of PRC A-Shares realised before 17 November 2014 in accordance with existing regulations and shall be temporarily exempted from WIT on gains derived from trading of PRC A-Shares from 17 November 2014 onwards. The Manager has accordingly determined to:

- (a) make a tax provision for WIT at 10% of the RMB Bond Fund’s gross realised capital gains derived from trading of PRC A-Shares since the RMB Bond Fund’s date of inception up to and including 14 November 2014. This excludes the realised gains derived from the RMB Bond Fund’s trading of PRC A-Shares issued by land rich companies (for which a provision had already been made previously). This will have a negative impact on the Net Asset Value of the RMB Bond Fund; and
- (b) reverse the tax provision for WIT made prior to 17 November 2014 on the RMB Bond Fund’s gross unrealised capital gains derived from investment in PRC A-Shares issued by land rich companies, if there is any such provision,

the net impact of (a) and (b) is negative and is referred to as the “**Withholding**”. For the purpose of illustration, as at 4 December 2014, the negative impact of the Withholding to the Net Asset Value of RMB Bond Fund is at approximately 0.0146%.

The impact of the Withholding will be reflected in the Net Asset Value of the RMB Bond Fund of 8 December 2014. Unitholders who have sold or redeemed Units in the RMB Bond Fund on or before 5 December 2014 will not be affected by the Withholding.

Due to the limited extent of the clarifications provided in the Notice, the Manager, acting in the best interest of the RMB Bond Fund, takes a prudent approach to make a provision for WIT for all capital gains derived from trading of PRC A-Shares realised before 17 November 2014 until further clarification is obtained. The Manager has come to the decision to make the above changes in tax provisioning policy after considering a range of factors including the Notice and the RMB Bond Fund's potential eligibility to benefit from tax treaties, and independent professional tax advice.

The Trustee of the Fund has no objection to the implementation of the Withholding.

For the avoidance of doubt, there is no change to the PRC tax provisioning policy of the RMB Bond Fund in respect of its investments in PRC RMB Fixed Income Securities. Subject to further clarification in relevant PRC tax rules and regulations, no withholding income tax provisions are being made on the gross realized and unrealized capital gains derived from PRC RMB Fixed Income Securities.

Position on future gains

In light of the Notice, the Manager, having taken independent professional tax advice and acting in accordance with such advice, will not make WIT provision for gross realised or unrealised capital gains derived from trading of PRC A-Shares from 17 November 2014 onwards. The Trustee of the Fund has no objection to the above treatment.

Risk factors

The PRC tax rules and practices in relation to RQFII, including the Notice, are new and their implementation is not tested and is uncertain. The potential application of tax treaties is also uncertain. There is a risk that any tax provision made by the Manager in respect of the RMB Bond Fund may be more than or less than the RMB Bond Fund's actual tax liabilities, which may potentially cause substantial loss to the RMB Bond Fund. The Manager will closely monitor any further guidance by the relevant PRC tax authorities and adjust the withholding policy of the RMB Bond Fund accordingly, taking into account independent professional tax advice. The Manager will act in the best interest of the RMB Bond Fund at all times.

Unitholders may be disadvantaged depending upon the final tax liabilities, the level of provision and when they subscribed and/or redeemed their Units. If the actual tax levied by the SAT is higher than that provided for by the Manager so that there is a shortfall in the tax provision amount, investors should note that the Net Asset Value of the RMB Bond Fund may be lowered, as the RMB Bond Fund will ultimately have to bear the full amount of tax liabilities. In this case, the additional tax liabilities will only impact Units in issue at the relevant time, and the then existing Unitholders and subsequent Unitholders will be disadvantaged as such Unitholders will bear, through the RMB Bond Fund, a disproportionately higher amount of tax liabilities as compared to that borne at the time of investment in the RMB Bond Fund. On the other hand, the actual

tax liabilities may be lower than the tax provision made, in which case only the then existing Unitholders will benefit from a return of the extra tax provision. Those persons who have already sold/redeemed their Units before the actual tax liabilities are determined will not be entitled or have any right to claim any part of such overprovision.

General

The Explanatory Memorandum (by way of the Fourth Addendum) and the Product Key Facts Statements of the RMB Bond Fund will be amended to reflect the above tax position. The Explanatory Memorandum and the Product Key Facts Statement will be published on the Manager's website at www.chinaamc.com.hk as soon as practicable.

Unitholders who have any enquiries regarding the above may contact the Manager at 37/F, Bank of China Tower, 1 Garden Road, Central, Hong Kong or our enquiry hotline at (852) 3406 8686 during office hours.

Yours faithfully,

China Asset Management (Hong Kong) Limited
华夏基金（香港）有限公司