

**ChinaAMC Select Fund
(the “Fund”)**

**ChinaAMC Select RMB Bond Fund
(the “RMB Bond Fund”)**

**ChinaAMC Select RMB Short-term Bond Fund
(the “RMB Short-term 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 and the RMB Short-term 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 華夏基金(香港)有限公司, 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.

18 August 2014

Dear Unitholder,

We are writing to inform you of the following changes concerning the Fund, the RMB Bond Fund and the RMB Short-term Bond Fund:

1. Changes to the Withholding Income Tax (“WIT”) provisioning policy of the RMB Bond Fund

With immediate effect, no tax provision will be made on capital gains derived from PRC RMB Fixed Income Securities and PRC A-Shares, except for those capital gains derived from investment in PRC A-Shares issued by PRC tax resident companies which are land rich companies.

Background

As currently disclosed in the Explanatory Memorandum, in the absence of specific rules governing taxes on RQFIIs’ capital gains derived from the trading of PRC securities, the PRC income tax treatment should be governed by the general tax provisions of the Corporate Income Tax (“CIT”) Law. For an enterprise that is not a tax resident enterprise and has no permanent establishment in the PRC for PRC CIT

purposes, a 10% PRC WIT on a withholding basis shall, subject to exemptions, apply to capital gains derived from the disposal of PRC securities. Before the date of this notice, the RMB Bond Fund has been withholding 10% for tax provisions on capital gains derived from PRC RMB Fixed Income Securities and PRC A-Shares, and interest from PRC RMB Fixed Income Securities (other than interest from government bonds).

China-HK Arrangements

Under 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* (the “**China-HK Arrangements**”), certain relief is applicable to Hong Kong tax residents. Under the China-HK Arrangements, the following treaty relief would be applicable to Hong Kong tax residents:

- a) For interest income derived by a Hong Kong tax resident, reduced WIT rate of 7% should be applicable if the Hong Kong tax resident is the beneficial owner of the interest income.
- b) Capital gains derived by a Hong Kong tax resident from PRC RMB Fixed Income Securities should not be subject to WIT.
- c) Capital gains derived by a Hong Kong tax resident from transfer of shares of a PRC tax resident company would be taxed in the PRC only if:
 - At least 50% of the PRC tax resident company’s assets are comprised, directly or indirectly, of immovable property situated in the PRC (an “land rich company”) during the three-year period before alienation; or
 - The Hong Kong tax resident holds at least 25% of the shares of the PRC tax resident company at any time during the twelve-month period before the alienation.

Pursuant to the relevant PRC tax regulations, approval by the relevant PRC tax authority should be obtained before a Hong Kong resident can enjoy relief under the China-HK Arrangements, and a Hong Kong Tax Resident Certificate (“**HKTRC**”) issued by the Inland Revenue Department of Hong Kong (the “**IRD**”) should be submitted to the relevant PRC tax authority for this purpose.

The RMB Bond Fund’s tax residence

As at the date of this notice, the RMB Bond Fund has not yet obtained the HKTRC from the IRD. If the PRC tax authorities enforce the collection of WIT on capital gains and require the RMB Bond Fund to provide a HKTRC in order to obtain the WIT exemption, the Manager will apply for a HKTRC on behalf of the RMB Bond Fund for relevant years. Having taken and considered independent professional tax advice relating to the RMB Bond Fund’s eligibility to obtain a HKTRC and to benefit

from the China-HK Arrangements, and acting in accordance with such advice, the Manager considers that the RMB Bond Fund should be regarded as a Hong Kong tax resident and therefore it should be able to obtain a HKTRC on behalf of the RMB Bond Fund to evidence the RMB Bond Fund's Hong Kong tax resident status, and hence the RMB Bond Fund should be able to enjoy a WIT exemption on capital gains under the China-HK Arrangements since the inception of the RMB Bond Fund.

Change to the RMB Bond Fund's policy

The Manager, acting in the best interest of Unitholders, assesses the WIT provisioning policy on an ongoing basis. Given the fast development of the RQFII regime and the Manager's accumulated knowledge about WIT, the Manager has reassessed the WIT provisioning policy. As a result of the reassessment and having taken and considered independent professional tax advice and acting in accordance with such advice, the Manager has determined that, from the date of this notice, no WIT provision will be made on the gross realized and unrealized capital gains derived from PRC RMB Fixed Income Securities and PRC A-Shares, except for those gross capital gains derived from the investment in PRC A-Shares issued by PRC tax resident companies which are land rich companies. A 10% provision for PRC WIT will continue to be provided for the gross realised capital gains derived by the Sub-Fund from the previous disposal of PRC A-Shares issued by PRC tax resident companies which are land rich companies.

The RMB Bond Fund will reverse the WIT provision made on the capital gains derived from PRC RMB Fixed Income Securities and PRC A-Shares, except for those gross realized capital gains derived from the previous disposal of PRC A-Shares issued by PRC tax resident companies which are land rich companies.

The Manager believes that the change in the RMB Bond Fund's policy with regard to WIT is in the best interests of the Unitholders.

Trustee confirmation

BOCI-Prudential Trustee Limited, the Trustee of the RMB Bond Fund, has confirmed that it has no objection to the calculation method or the change in the tax provisioning policy applicable to the RMB Bond Fund.

Interest income policy unchanged

The changes to the RMB Bond Fund's policy with regard to WIT only apply to the capital gains derived from PRC RMB Fixed Income Securities. The tax provision treatment of other types of income of the RMB Bond Fund, including interest income, is not affected. Details of such tax provision treatment are disclosed under the "Taxation" section of the Explanatory Memorandum.

Impact of changes to the WIT provisioning policy to investors

Net Asset Value

The above changes will have the effect of increasing the Net Asset Value of the RMB Bond Fund. The Net Asset Value of the RMB Bond Fund starting from the date of this notice will reflect the change in tax provision and the reversal of provision made as described above.

For the purpose of illustration, as at 11 July 2014, the RMB Bond Fund had a total WIT provision of RMB 6,010,269.41, out of which a provision of RMB 5,948,128.65 was related to the gross realized and unrealized capital gains derived from PRC RMB Fixed Income Securities and PRC A-Shares other than those derived from land rich companies, which amounted to 0.55% of the Net Asset Value as at 11 July 2014. This calculation has been agreed by the Auditor. For the avoidance of doubt, the reversal of provision on the date of this notice will only be for that amount of the provision in respect of the gross unrealised and realised capital gains other than those derived from PRC A-Shares of land rich companies as at the date of this notice.

Previous Unitholders

Unitholders who have already redeemed their Units in the RMB Bond Fund before the date of this notice will not be entitled or have any right to claim any part of the amount representing the reversed WIT provision.

Risks

It should be noted that there are uncertainties in relation to the Manager's determination of WIT provision, including:

- The China-HK Arrangements may be changed in the future and the RMB Bond Fund may ultimately be required to pay WIT on capital gains.
- To date, the RMB Bond Fund has not obtained from the IRD a HKTRC, which if the PRC tax authorities enforce the collection of WIT and require the RMB Bond Fund to provide a HKTRC in the future, the Manager will apply for a HKTRC on behalf of the RMB Bond Fund for relevant years. However, there is a risk that the Manager may not be able to obtain a HKTRC on behalf of the RMB Bond Fund.
- To date, the PRC tax authorities have not sought to enforce WIT collection on capital gains derived by RQFIIs such as the Manager for the RMB Bond Fund. If the PRC tax authorities start to enforce WIT collection on capital gains, the relief under the China-HK Arrangements is still subject to the final approval of the PRC tax authorities. Even if the Manager believes that the RMB Bond Fund should be eligible for such relief, the tax authorities may ultimately hold a different view.
- Due to the limitation to the availability of the public information in the PRC (e.g. in respect of the market value of land and land use rights), the information to be adopted by the PRC tax authorities in assessing land rich companies may be

different from the information used by the Manager in assessing land rich companies which may result in different conclusion by the Manager for some PRC A-Share companies to those of the PRC tax authorities.

For the above reasons, any WIT provision on capital gains made by the RMB Bond Fund may be less than the RMB Bond Fund's actual tax liabilities. Consequently, 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 RMB Bond Fund is required to pay WIT on capital gains which the RMB Bond Fund has not provided for, such WIT will be debited from the RMB Bond Fund's assets. Investors should note that the Net Asset Value of the RMB Bond Fund may suffer more than the tax provision amount 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 those persons who have already 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.

Unitholders may be disadvantaged depending upon the final tax liabilities, the level of provision and when they subscribed and/or redeemed their Units. Unitholders should seek their own tax advice on their tax position with regard to their investment in the RMB Bond Fund.

Investors should also refer to the Explanatory Memorandum for further details, including the risk factors applicable to such changes to the WIT provisioning policy.

2. Changes to the WIT provisioning policy of the RMB Short-term Bond Fund

With immediate effect, no tax provision will be made on capital gains derived from PRC RMB Fixed Income Securities.

Background

Please refer to point 1 above for the background of the changes to the WIT provisioning policy.

Before the date of this notice, the RMB Short-term Bond Fund has been withholding 10% for tax provisions on capital gains derived from PRC RMB Fixed Income Securities, and interest from PRC RMB Fixed Income Securities (other than interest from government bonds).

The RMB Short-term Bond Fund's tax residence

As at the date of this notice, the RMB Short-term Bond Fund has not yet obtained the HKTRC from the IRD. If the PRC tax authorities enforce the collection of WIT on capital gains and require the RMB Short-term Bond Fund to provide a HKTRC in order to obtain the WIT exemption, the Manager will apply for a HKTRC on behalf of the RMB Short-term Bond Fund for relevant years. Having taken and considered independent professional tax advice relating to the RMB Short-term Bond Fund's eligibility to obtain a HKTRC and to benefit from the China-HK Arrangements, and acting in accordance with such advice, the Manager considers that the RMB Short-term Bond Fund should be regarded as a Hong Kong tax resident and therefore it should be able to obtain a HKTRC on behalf of the RMB Short-term Bond Fund to evidence the RMB Short-term Bond Fund's Hong Kong tax resident status, and hence the RMB Short-term Bond Fund should be able to enjoy a WIT exemption on capital gains under the China-HK Arrangements since the inception of the RMB Short-term Bond Fund.

Change to the RMB Short-term Bond Fund's policy

The Manager, acting in the best interest of Unitholders, assesses the WIT provisioning policy on an ongoing basis. Given the fast development of the RQFII regime and the Manager's accumulated knowledge about WIT, the Manager has reassessed the WIT provisioning policy. As a result of the reassessment and having taken and considered independent professional tax advice and acting in accordance with such advice, the Manager has determined that, from the date of this notice, no WIT provision will be made on the gross realized and unrealized capital gains derived from PRC RMB Fixed Income Securities. In addition, the RMB Short-term Bond Fund will reverse the WIT provision made on the capital gains derived from PRC RMB Fixed Income Securities.

The Manager believes that the change in the RMB Short-term Bond Fund's policy with regard to WIT is in the best interests of the Unitholders.

Trustee confirmation

BOCI-Prudential Trustee Limited, the Trustee of the RMB Short-term Bond Fund, has confirmed that it has no objection to the calculation method or the change in the tax provisioning policy applicable to the RMB Short-term Bond Fund.

Interest income policy unchanged

The changes to the RMB Short-term Bond Fund's policy with regard to WIT only apply to the capital gains derived from PRC RMB Fixed Income Securities. The tax provision treatment of other types of income of the RMB Short-term Bond Fund, including interest income, is not affected. Details of such tax provision treatment are disclosed under the "Taxation" section of the Explanatory Memorandum.

Impact of changes to the WIT provisioning policy to investors

Net Asset Value

The above changes will have the effect of increasing the Net Asset Value of the RMB Short-term Bond Fund. The Net Asset Value of the RMB Short-term Bond Fund starting from the date of this notice will reflect the change in tax provision and the reversal of provision made as described above.

For the purpose of illustration, as at 11 July 2014, the RMB Short-term Bond Fund had a total WIT provision of RMB300,172.13, out of which a provision of RMB300,172.13 was related to the capital gains derived from PRC RMB Fixed Income Securities, which amounted to 0.04% of the Net Asset Value as at 11 July 2014. This calculation has been agreed by the Auditor.

Previous Unitholders

Unitholders who have already redeemed their Units in the RMB Short-term Bond Fund before the date of this notice will not be entitled or have any right to claim any part of the amount representing the reversed WIT provision.

Risks

It should be noted that there are uncertainties in relation to the Manager's determination of WIT provision, including:

- The China-HK Arrangements may be changed in the future and the RMB Short-term Bond Fund may ultimately be required to pay WIT on capital gains.
- To date, the RMB Short-term Bond Fund has not obtained from the IRD a HKTRC, which if the PRC tax authorities enforce the collection of WIT and require the RMB Short-term Bond Fund to provide a HKTRC in the future, the Manager will apply for a HKTRC on behalf of the RMB Short-term Bond Fund for relevant years. However, there is a risk that the Manager may not be able to obtain a HKTRC on behalf of the RMB Short-term Bond Fund.
- To date, the PRC tax authorities have not sought to enforce WIT collection on capital gains derived by RQFIIs such as the Manager for the RMB Short-term Bond Fund. If the PRC tax authorities start to enforce WIT collection on capital gains, the relief under the China-HK Arrangements is still subject to the final approval of the PRC tax authorities. Even if the Manager believes that the RMB Short-term Bond Fund should be eligible for such relief, the tax authorities may ultimately hold a different view;

For the above reasons, the RMB Short-term Bond Fund may be required to pay WIT on capital gains which the RMB Short-term Bond Fund has not provided for. Consequently, 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 RMB Short-term Bond Fund is required to pay WIT on capital gains which the RMB Short-term Bond Fund has not provided for, such WIT will be debited from the RMB Short-term Bond Fund's assets. Investors should note that the

Net Asset Value of the RMB Short-term Bond Fund may suffer more than the tax provision amount as the RMB Short-term 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 Short-term Bond Fund, a disproportionately higher amount of tax liabilities as compared to that borne at the time of investment in the RMB Short-term Bond Fund.

Unitholders may be disadvantaged depending upon the final tax liabilities, the level of provision and when they subscribed and/or redeemed their Units. Unitholders should seek their own tax advice on their tax position with regard to their investment in the RMB Short-term Bond Fund.

Unitholders should also refer to the Explanatory Memorandum for further details, including the risk factors applicable to such changes to the WIT provisioning policy.

3. Changes relating to Renminbi Qualified Foreign Institutional Investor (RQFII) quota policy

Pursuant to the Guidelines on Management and Operation of RQFII Quota (RQFII 额度管理操作指引) issued by the State of Administration of Foreign Exchange (“SAFE”) issued on and effective from 30 May 2014, a RQFII has the flexibility to allocate its RQFII quota granted by SAFE across different public fund products under its management. Accordingly, the RMB Bond Fund and the RMB Short-term Bond Fund no longer have the exclusive use of all the RQFII quota previously granted by SAFE to the Manager in respect of the RMB Bond Fund and the RMB Short-term Bond Fund respectively. With immediate effect, the Manager, at its discretion, may re-allocate the RQFII quota in respect of the RMB Bond Fund and the RMB Short-term Bond Fund to other public fund products under its management or vice-versa without having to obtain prior approval from SAFE.

4. Reduction of the Trustee’s Fee for the RMB Bond Fund

With immediate effect, the fee payable to the Trustee for the RMB Bond Fund will be reduced from 0.175% per annum to up to 0.15% per annum.

The Explanatory Memorandum (by way of the Third Addendum) and the revised Product Key Facts Statements will be amended to reflect (i) the changes to the WIT provisioning policy of the RMB Bond Fund and the RMB Short-term Bond Fund; (ii) the changes to the RQFII quota policy; and (iii) reduction of Trustee fee for the RMB Bond Fund, all of which 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
華夏基金(香港)有限公司