

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

**ChinaAMC Select RMB Bond Fund  
ChinaAMC Select China New Economy Fund  
ChinaAMC Select Hong Kong China Opportunities Fund  
ChinaAMC Select Asia Bond Fund  
ChinaAMC Select Fixed Income Allocation Fund  
(each a “Sub-Fund”, collectively the “Sub-Funds”)**

**NOTICE TO UNITHOLDERS**

**This notice is important and requires your immediate attention. 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 of the Fund and the Sub-Funds dated August 2018, as may be amended and supplemented from time to time (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.

18 March 2019

Dear Unitholder,

We are writing to inform you of the following changes concerning the Fund and the Sub-Funds. Unless otherwise specified, the relevant changes will take immediate effect from the date of this notice.

**1. Elaboration of investment strategy of the Sub-Funds**

It is currently disclosed in the Explanatory Memorandum that the Manager may, under exceptional circumstances such as in times of extreme volatility of the markets or during severe adverse market conditions, temporarily hold the following portion of the Sub-Funds’ assets in cash, cash equivalents, or short-term money market instruments to preserve the value of the assets in the investment portfolio of the Sub-Funds or for defensive purposes, or, in the case of ChinaAMC Select Fixed Income Allocation Fund, also for liquidity management:

<b>Sub-Fund</b>	<b>Percentage in the foregoing instruments</b>
ChinaAMC Select RMB Bond Fund	Substantial portion
ChinaAMC Select China New Economy Fund	Substantial portion
ChinaAMC Select Hong Kong China Opportunities Fund	Up to 30% of net assets
ChinaAMC Select Asia Bond Fund	Less than 30% of net asset value
ChinaAMC Select Fixed Income Allocation Fund	Up to 70% of net asset value

In addition, ChinaAMC Select Asia Bond Fund may invest up to 20% of its net asset value in the foregoing instruments and ChinaAMC Select China New Economy Fund may invest up to 30% of its assets in cash or cash equivalents, as part of their respective investment strategies other than under exceptional circumstances.

The Manager would like to elaborate that the abovementioned “short-term money market instruments” in which each of the Sub-Funds may invest include certificates of deposit, treasury bills, commercial papers and money market funds managed by a third party, the Manager, or its Connected Persons.

In this connection, the Explanatory Memorandum has also been updated to specify that, where the Manager invests a Sub-Fund in shares or units of another collective investment scheme managed by the Manager or its Connected Persons, the manager of the scheme in which the investment is being made by the Sub-Fund must waive any management fee, preliminary or initial charge which it is entitled to charge for its own account in relation to the acquisition of shares or units. There must be no increase in the overall total management fees (or other costs and charges payable to the Manager or its Connected Persons) borne by the Sub-Fund resulting from the foregoing investment in the collective investment scheme managed by the Manager or its Connected Persons.

**2. Update to disclosures on PRC tax policies and the change of PRC tax provisioning arrangement in respect of investments in Mainland China debt securities by ChinaAMC Select RMB Bond Fund (“RMB Bond Fund”)**

**"Circular on the Corporate Income Tax and Value-Added Tax Policy for Foreign Institutions to Invest in the Onshore Bond Market" (Caishui [2018] No.108)**

On 22 November 2018, the Ministry of Finance (“**MoF**”) and the State Administration of Taxation (“**SAT**”) of the PRC jointly issued "Circular on the Corporate Income Tax and Value-Added Tax Policy for Foreign Institutions to Invest in the Onshore Bond Market" (Caishui [2018] No.108) (“**Notice No. 108**”). Pursuant to Notice No. 108, bond interest income derived by foreign institutions from investing in the onshore bond market is temporarily exempted from Corporate Income Tax and Value-Added Tax (“**VAT**”) for the period from 7 November 2018 to 6 November 2021.

**Change of withholding income tax (“WIT”) provisioning arrangement of RMB Bond Fund**

Under PRC laws and regulations, foreign investors (such as RMB Bond Fund) may be subject to 10% WIT on Mainland China sourced income (such as dividends on, or interest income from, such investments in Mainland China).

As disclosed in the Explanatory Memorandum, the Manager assesses the WIT provisioning of RMB Bond Fund on an on-going basis and reserves the right to provide for WIT for the account of RMB Bond Fund. The Manager has made a 10% WIT provision on interest income derived from Mainland China fixed income securities denominated in RMB held by RMB Bond Fund since 27 February 2012.

In light of Notice No. 108 and having taken and considered independent professional tax advice, the Manager has on the date of this notice (“**Effective Date**”) reversed the foregoing 10% WIT provision on interest income derived from Mainland China fixed income securities denominated in RMB that have been made since 7 November 2018.

## Change in VAT provisioning arrangement of RMB Bond Fund

Pursuant to the “Notice on the Comprehensive Roll-out of the Business Tax to Value Added Tax Transformation Pilot Program Circular”, Caishui [2016] No. 36 (“**Notice No. 36**”) jointly issued by the MOF and SAT, that, with effect from 1 May 2016, interest income received by QFIIs and RQFIIs from investments in Mainland China debt securities shall be subject to 6% VAT unless special exemption applies. According to Notice No. 36, deposit interest income is not subject to VAT and interest income earned on government bonds issued by MOF and approved local government bonds are exempted from VAT. Hence, save and except interest income derived from government bonds issued by MOF and approved local government bonds, interest income from other debt securities, which include non-government bonds (such as financial bonds, policy bank bonds and corporate bonds) and offshore bonds issued by Mainland Chinese tax resident companies (“**Affected Bonds**”), may be subject to VAT at 6%.

If VAT is applicable, there are also other surtaxes (which include urban maintenance and construction tax, education surcharge and local education surcharge) that would amount to as high as 12% of VAT payable.

Prior to the Effective Date, due to the uncertainty of the interpretation and implementation of the VAT rules, the Manager had not made any provisions for VAT and the related surtaxes in respect of RMB Bond Fund since 1 May 2016.

In light of Notice No. 108 and having taken and considered independent professional tax advice, the Manager has on the Effective Date made a provision for VAT which is equal to 6% of the interest income derived from debt instruments issued or distributed in Mainland China received/receivable by RMB Bond Fund, and for other surtaxes equal to 12% of the VAT amount for the period between 1 May 2016 and 6 November 2018.

In other words, a provision for VAT and the related surtaxes at 6.72% on the interest income from the Affected Bonds (the “VAT Provision”) was made in respect of RMB Bond Fund for the period from 1 May 2016 to 6 November 2018, in order to reflect the effective rate of VAT and the related surtaxes.

## Impact on Net Asset Value (“NAV”) of RMB Bond Fund

As a result of the foregoing changes in the WIT and VAT provisioning arrangements of RMB Bond Fund, the NAV of RMB Bond Fund as at the Effective Date been will be adjusted to reflect such changes. For the purpose of illustration, the Net Asset Value of RMB Bond Fund as at the Effective Date will be increased by RMB138,436.19, representing an increase of 0.068% of its Net Asset Value and the impact on each Class of Units is shown below:

	Increase in NAV per Unit	Increase in NAV per Unit in %
Class A-DIST-RMB Units	RMB 0.01	0.068%
Class A-DIST-USD Units	USD 0.01	0.068%
Class I-DIST-USD Units	USD 0.01	0.068%

The Manager believes that the above WIT and VAT provisioning arrangements are in the best interests of the Unitholders of RMB Bond Fund.

### Previous Unitholders

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

As disclosed in the Explanatory Memorandum, investors may be disadvantaged depending on the final rules of the relevant PRC tax authorities, the level of provision and when they subscribed and/or redeemed their Units. Upon any future resolution of the above-mentioned tax exemption or further changes to tax law or policies, the Manager, will as soon as practicable, make relevant adjustments to the amount of tax provision as it considers necessary.

### **PRC tax provisioning arrangement for future interest income**

In light of Notice No. 108 and having taken and considered independent professional tax advice and acting in accordance with such advice, no WIT provision or VAT provision will be made on interest income derived from debt instruments issued or distributed in Mainland China received/receivable by RMB Bond Fund for the period from 7 November 2018 to 6 November 2021 until Notice No. 108 ceases to apply.

### **Trustee Confirmation**

BOCI-Prudential Trustee Limited, the Trustee of the Fund and RMB Bond Fund, has confirmed that it has no objection to the changes in the WIT and VAT tax provisioning arrangements, the change in the PRC tax provisioning policy and the adjustment to NAV in respect of RMB Bond Fund.

### **Consequences and Risks**

As disclosed in the Explanatory Memorandum, there is a possibility of the Mainland China tax rules being changed and taxes being applied retrospectively. As such, it should be noted that the level of provision may be inadequate to meet actual Mainland China tax liabilities on investments made by RMB Bond Fund. If the actual tax levied by the Mainland China tax authorities 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 NAV of RMB Bond Fund may suffer more than the tax provision amount as 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 RMB Bond Fund, a disproportionately higher amount of tax liabilities as compared to that borne at the time of investment in 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. As a result, investors may be disadvantaged depending on the final rules of the relevant Mainland China tax authorities, the level of provision and when they subscribed and/or redeemed their Units.

The Manager will keep the provisioning policy for Mainland China taxes in respect of RMB Bond Fund under review, and may, upon consultation with the Trustee and based on professional and independent tax advice, exercise its discretion from time to time to change the provisioning policy for potential tax liabilities.

**Unitholders are urged to consult their own tax advisers on the tax consequences to them of acquiring, holding, realising, transferring or redeeming Units as a result of the change in the Mainland China tax provisioning policy.**

Copies of the Trust Deed, together with all supplemental deeds are available for inspection free of charge at any time during normal business hours on any day (excluding Saturdays, Sundays and public holidays) at the Manager's office at 37/F, Bank of China Tower, 1 Garden Road, Central, Hong Kong.

The Explanatory Memorandum will be amended to reflect the above changes in due course, and will be published on the Manager's website at [www.chinaamc.com.hk](http://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 the Manager's enquiry hotline at (852) 3406 8686 during office hours.

Yours faithfully,

**China Asset Management (Hong Kong) Limited**