

CHINA UNIVERSAL INTERNATIONAL SERIES (the “Fund”)

This document is important and requires your immediate attention. If you are in any doubt about the contents of this document, you should seek independent professional financial advice. Investment involves risk. Please refer to the Explanatory Memorandum of the Fund and the Key Fact Statement of each Sub-Fund for further details including the risk factors.

China Universal Asset Management (Hong Kong) Company Limited (the “Manager”) accepts full responsibility for the accuracy of the information contained in this document at the date of publication 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.

Capitalised terms used herein shall bear the same meanings as capitalised terms used in the Explanatory Memorandum for the Fund dated November 2012, as may be amended and supplemented from time to time (the “Explanatory Memorandum”).

Dear Investor,

Change of PRC withholding tax provisioning policy of the Sub-Fund

We are writing to inform you of the following amendments to the Explanatory Memorandum:

The Manager decides that, in accordance with the independent professional tax advice, with effect from 30 May 2014 (the “**Effective Date**”), no PRC withholding income tax (“**WIT**”) provision will be made in respect of the Sub-Fund on gross unrealised and realised capital gains derived from investments in PRC Securities, except for those capital gains derived from investments in China A-Shares issued by PRC tax resident companies which are land rich companies (as defined below).

The change will have the effect of increasing the Net Asset Value of the Sub-Fund. Persons who have already transferred or redeemed their Units in the Sub-Fund before the Effective Date will not be entitled to have any right to claim any part of the amount representing the reversal of PRC WIT provision.

The Manager believes that the change of PRC withholding tax provisioning policy of the Sub-Fund is in the best interests of the Unitholders.

Background

As disclosed in the Explanatory Memorandum, in the absence of specific rules governing taxes on capital gains derived by RQFIIs from the investments in 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 (“**PE**”) in the PRC for PRC CIT purposes, a 10% PRC CIT on a withholding basis shall, subject to exemptions, apply to capital gains derived from investments in PRC Securities. Before the Effective Date, the Sub-Fund has been making a provision at 10% on its gross realised and unrealised capital gains derived from investments in instruments mentioned in the Sub-Fund’s investment objective and policy.

The China-HK Arrangement

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

- (a) For interest income derived by a Hong Kong tax resident, reduced PRC 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 the investments in PRC fixed income instruments should not be subject to PRC 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**”) at any time within 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 Arrangement, and a Hong Kong Tax Resident Certificate (“**HKTRC**”) issued by the Inland Revenue Department of Hong Kong (the “**IRD**”) may be required to be submitted to the relevant PRC tax authority for this purpose.

The Sub-Fund’s tax residence

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

Change to the Sub-Fund’s PRC WIT provisioning policy

Having taken and considered independent professional tax advice and acting in accordance with such advice, the Manager has determined that, from the Effective Date:

- no PRC WIT provision will be made on the gross unrealised and realised capital gains derived from investments in PRC Securities, except for those gross capital gains derived from investments in China A-Shares issued by PRC tax resident companies which are land rich companies;

- a 10% provision for PRC WIT will continue to be made for the gross unrealised and realised capital gains derived by the Sub-Fund from investments in China A-Shares issued by PRC tax resident companies which are land rich companies.

The Sub-Fund will reverse the PRC WIT provision previously made on the gross unrealised and realised capital gains derived from investments in PRC Securities, except for those gross unrealised and realised capital gains derived from investments in China A-Shares issued by PRC tax resident companies which are land rich companies.

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

Trustee confirmation

BOCI-Prudential Trustee Limited, the Trustee of the Sub-Fund, has confirmed that it has no objection to the change in the PRC withholding tax provisioning policy applicable to the Sub-Fund.

Dividend and interest income WIT provisioning approach remains unchanged

The changes to the Sub-Fund's PRC WIT provision approach only apply to the gross unrealised and realised capital gains derived from investments in PRC Securities. The PRC WIT provision treatment of other types of income of the Sub-Fund, including dividend income and interest income, is not affected by the change to the PRC withholding tax provisioning approach on the gross unrealised and realised capital gains. Details of such tax provision treatment are disclosed under the risk factor headed "**PRC tax considerations**" under the section headed "**Risk Factors**" in the Explanatory Memorandum.

Impact of changes to the WIT provisioning approach to investors

Net Asset Value

The above changes will have the effect of increasing the Net Asset Value of the Sub-Fund. The Net Asset Value of the Sub-Fund starting from the Effective Date will reflect the change in tax provision and the reversal of provision made as described above.

For the purpose of illustration, as at 29 May 2014, the Sub-Fund had a total PRC WIT provision of RMB 1,890,228.51, out of which a provision of RMB 1,508,609.82 was related to the gross unrealised and realised capital gains from PRC Securities other than those derived from land rich companies, which amounted to 0.53% of the Net Asset Value as at 29 May 2014. This calculation has been agreed by our auditors. No audit opinion was expressed. For the avoidance of doubt, the reversal of provision on the Effective Date will only be for that amount of the provision in respect of the gross unrealised and realised capital gains other than those derived from land rich companies as at the Effective Date.

Previous Unitholders

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

Risks

It should be noted that there are certain uncertainties regarding the change in PRC WIT provisioning approach:

- The China-HK Arrangement may be changed in the future and the Sub-Fund may ultimately be required to pay PRC WIT on capital gains.
- To date, the Sub-Fund has not yet obtained a HKTRC from the IRD. If the PRC tax authorities enforce the collection of PRC WIT on capital gains and require the Sub-Fund to provide a HKTRC, the Manager will apply for a HKTRC on behalf of the Sub-Fund on annual basis, which is subject to the assessment of the IRD. However, there is a risk that the Manager will not be able to obtain a HKTRC on behalf of a Sub-Fund.
- To date, the PRC tax authorities have not sought to enforce PRC WIT collection on capital gains derived by RQFIIs such as the Manager for the Sub-Fund. If the PRC tax authorities start enforcing PRC WIT collection on capital gains, the relief under the China-HK Arrangement is still subject to the final approval of the relevant PRC tax authorities. Even if the Manager, in accordance with the independent professional tax advice, believes that the Sub-Fund should be eligible for such relief, the PRC 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 right), 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 China A-Share companies to those of the PRC tax authorities.

For the above reasons, any PRC WIT provision on capital gains made by the Manager in respect of the Sub-Fund may be less than the Sub-Fund's actual tax liabilities. It should also be noted that there is a possibility of the PRC 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 PRC tax liabilities on investments made by the Sub-Fund. 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 actual tax levied by the State Administration of Taxation 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 Sub-Fund may be lowered, as the Sub-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 Sub-Fund, a disproportionately higher amount of tax liabilities as compared to that borne at the time of investment in the Sub-Fund. On the other hand, the actual tax liabilities may be lower than the tax provision made. In that 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 and as such may be disadvantaged. Notwithstanding the above change in tax provisioning approach, persons who have already redeemed their Units in the Sub-Fund before the return of any overprovision to the account of the Sub-Fund 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 Sub-Fund.

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

Please note that other ancillary changes to the Explanatory Memorandum will be made. Please refer to the enclosed Fourth Addendum for details of the amendments.

If you have any questions or require further information, please contact the Manager at 2701, 27/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong or by telephone at 3983 5600.

Yours faithfully,

China Universal Asset Management (Hong Kong) Company Limited
30 May 2014