CSI Alpha Fund Series (the "Trust")
- CSI China-Hong Kong Leaders Fund
- CSI RMB Income Fund
- CSI RMB Short Maturity Bond Fund
(each a "Fund", collectively the "Funds")

CITIC Securities International Investment Management (HK) Limited
(as Manager of the Trust)
26th Floor, CITIC Tower,
1 Tim Mei Avenue, Central,
Hong Kong

IMPORTANT: This document is important and requires your immediate attention. If you are in any doubt about the content of this document, you should seek independent professional financial advice.

Dear Valued Unitholders,

We are writing to inform you of the following changes in relation to the Trust. Unless otherwise defined, capitalized terms used herein shall have the same meaning as defined in the offering document of the Trust (the "**Offering Document**").

1. Changes in PRC withholding income tax provisioning policy in relation to CSI RMB Income Fund and CSI RMB Short Maturity Bond Fund

The PRC withholding income tax provisioning policy in relation to CSI RMB Income Fund and CSI RMB Short Maturity Bond Fund (each a "**RQFII Fund**", collectively, the "**RQFII Funds**") will change as set out below.

<u>Background</u>

As disclosed in the Trust Prospectus and Specific Fund Prospectuses of the RQFII Funds, in the absence of specific rules governing taxes on capital gains derived by RQFIIs in the past, the income tax treatment of the RQFII Funds' investments in PRC debt and equity securities would be governed by the general tax provisions of the PRC Corporate Income Tax Law. If a foreign investor is a non-tax resident enterprise without a permanent establishment in the PRC, a 10% withholding income tax ("**WIT**") may be imposed on the PRC-sourced capital gains, unless exempt or reduced under current PRC tax laws and regulations or relevant tax treaties. Since inception, the RQFII Funds have been making a provision at 10% on its gross realized and unrealized capital gains derived from PRC debt and equity securities.

<u>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</u>

On 14 November 2014, the Ministry of Finance of the PRC, the State Administration of Taxation of the PRC and the China Securities Regulatory Commission jointly 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 (the "Circular 79"). The Circular 79 states that PRC corporate income tax is chargeable 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 Circular 79 also states that QFII and RQFII without an establishment or place of business in the PRC will be temporarily exempt from corporate income tax on capital gains derived from investments in China A-shares effective from 17 November 2014.

In light of the Circular 79 announcement, the Manager, having taken and considered independent professional tax advice and acting in accordance with such advice, has determined that no PRC WIT provision on the gross realized and unrealized capital gains derived from investments in China A-shares will be made starting from 17 November 2014.

<u>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 "**Arrangement**")</u>

In spite of the Circular 79 announcement, the Manager, having taken and considered independent professional tax advice and acting in accordance with such advice, considers that certain tax relief under the Arrangement could be applied to Hong Kong tax residents (including the RQFII Funds) as follows:

(A) 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:

- 50% or more of the PRC tax resident company's assets are comprised, directly or indirectly, of immovable property situated in the PRC during the three-year period before the alienation (an "**land rich company**"); or

- the Hong Kong tax resident holds has a participation of at least 25% of the shares of the that PRC tax resident company at any time during the 12 months before the alienation.

(B) Capital gains derived by a Hong Kong tax resident from transfer of debt instruments issued by the PRC government or PRC corporations, as well as exchange-traded funds is eligible for the tax relief and should not be taxable in the PRC.

<u>RQFII Funds' tax residence</u>

After careful assessment by the Manager and having taken and considered independent professional tax advice relating to the RQFII Funds' eligibility to benefit from the Arrangement and acting in accordance with such advice, the Manager considers that the RQFII Funds qualify as Hong Kong tax residents for the purpose of the Arrangement and are able to enjoy the exemption on capital gains derived from disposal of the eligible types of PRC debt and equity securities (including those capital gains derived from disposal of China A-shares before 17 November 2014). Pursuant to the relevant PRC tax regulations, approval by the relevant PRC tax authority should be obtained. It may be necessary for a Hong Kong tax resident to submit a Hong Kong Tax Resident Certificate ("**HKTRC**") issued by the Inland Revenue Department of Hong Kong (the "**IRD**") to the relevant PRC tax authority for this purpose, in order to obtain approval for tax relief from PRC tax authority under the Arrangement. As at the date of this notice, the RQFII Funds have 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 RQFII Funds to provide a HKTRC in order to obtain the PRC WIT exemption, the Manager will apply for a HKTRC on behalf of the RQFII Funds from the IRD for the relevant years.

The Manager, having taken and considered independent professional tax advice and acting in accordance with such advice, has reassessed the PRC WIT provisioning policy of the RQFII Funds with careful consideration and determined that, from 19 December 2014, the RQFII Funds' PRC WIT provisioning policy will change as follows:

- no WIT provision will be made on the gross realized and unrealized capital gains derived from investments in PRC debt and equity securities other than, in respect of the CSI RMB Income Fund, those realised capital gains derived before 17 November 2014 from investment in China A-shares issued by PRC resident companies which are land rich companies; and

- a 10% WIT provision will continue to be made for the realized capital gains derived before 17 November 2014 by the CSI RMB Income Fund from investment in China A-shares issued by PRC resident companies which are land rich companies.

The Manager believes that this change in the RQFII Funds' PRC WIT provisioning policy is in the best interests of the Unitholders.

Trustee confirmation

BOCI-Prudential Trustee Limited, the Trustee of the RQFII Funds, has confirmed that it has no objection to the changes in the PRC withholding income tax provisioning policy for the RQFII Funds, after seeking independent professional tax advice.

PRC withholding income tax policy on interest and dividend income remains unchanged

Please note that the above-mentioned changes only applies to realized and unrealized capital gains derived from investments in PRC debt and equity securities. The PRC WIT provision treatment for other types of income of the RQFII Funds, including interest and dividend income, remains unchanged.

Impact of change of PRC withholding income tax provisioning policy to investors

Net asset value

The above-mentioned changes will have the effect of increasing the net asset values of the RQFII Funds. For the purpose of illustration:

CSI RMB Income Fund had total tax provision of RMB 2,530,646, out of which provision of RMB 2,042,036 was related to the gross realized and unrealized capital gains derived from investments in PRC debt securities, which amounted to 0.97% of the net asset value as at 16 December 2014. Since inception, CSI RMB Income Fund has not invested in any China A-shares, and hence, no provision was made in this regard.

CSI RMB Short Maturity Bond Fund had total tax provision of RMB 658,815, out of which provision of RMB 316,439 was related to the gross realized and unrealized capital gains derived from investments in PRC debt securities, which amounted to 0.1% of the net asset value as at 16 December 2014.

On 19 December 2014, the net asset values of the RQFII Funds will be increased by the reversal of the respective PRC tax provision amounts as set out above.

Previous Unitholders

As disclosed in the Trust Prospectus and Fund Specific Prospectuses, Unitholders may be disadvantaged depending on the level of PRC tax provision and the time they subscribed and/or redeemed their Units in the RQFII Funds. Unitholders who have already redeemed their Units in the RQFII Funds before 19 December 2014 will not be entitled or have any right to claim any part of the amount representing the reversed tax provision.

Risks

It should be noted that there are uncertainties regarding the PRC WIT treatment on capital gains derived from investments in PRC debt and equity securities:

- The Arrangement may be changed in the future and the RQFII Funds may ultimately be required to pay PRC WIT on capital gains. As at the date of this notice, the RQFII Funds have not yet obtained the HKTRC from the IRD. If the PRC tax authorities enforce the collection of WIT on capital gains and require the RQFII Funds to provide a HKTRC in order to obtain the exemption, the Manager will apply for a HKTRC on behalf of the RQFII Funds from the IRD for the relevant years. However, there is a risk that the Manager will not be able to obtain a HKTRC on behalf of the RQFII Funds.
- To date, the PRC tax authorities have not sought to enforce PRC WIT collection on capital gains derived by RQFIIs such as CITIC Securities International Company Limited for the RQFII Funds. If the PRC tax authorities start to enforce PRC WIT collection on capital gains, the relief under the Arrangement is still subject to the final approval of the relevant PRC tax authorities. Even if the Manager, having taken and considered independent professional tax advice and acting in accordance with such advice, believes that the RQFII Funds should be eligible for such relief, the PRC tax authorities may ultimately hold a different view.
- The corporate income tax exemption granted under the Circular 79 for capital gains derived by RQFII from investments in China A-shares is temporary. As such, as and when the PRC authorities announce the expiry date of the exemption, the CSI RMB Income Fund may in future need to make provision to reflect taxes payable.

For the above reasons, any PRC WIT provision on capital gains made by the Manager in respect of the RQFII Funds may be less than the RQFII Fund's actual tax liabilities. It should also be noted that there is a possibility of the PRC tax rules, regulations and practice being changed and taxes being applied retrospectively.

In the event that actual tax is collected by the State Administration of Taxation and the RQFII Funds are required to make payments reflecting tax liabilities for which no provision has been made or for which the level of provision is inadequate, the net asset values of the RQFII Funds will be adversely affected, as the RQFII Funds will ultimately have to bear the full amount of tax liabilities. In this case, the 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 RQFII Funds, a disproportionately higher amount of tax liabilities as compared to that borne at the time of investments in the RQFII Funds.

On the other hand, if the actual applicable tax levied by PRC tax authorities is less than that provided for by the Manager so that there is an excess in the tax provision amount, Unitholders who have redeemed the Units before PRC tax authorities' ruling, decision or guidance in this respect will be disadvantaged as they would have borne the loss from the Manager's overprovision. In this case, the then existing and new Unitholders may benefit if the difference between the tax provision and the actual taxation liability can be returned to the account of the RQFII Funds as assets thereof.

Unitholders may be disadvantaged depending upon the final tax liabilities, and when they subscribed and/or redeemed their Units. Unitholders should seek their own tax advice on their tax position with regard to their investments in the RQFII Funds.

Upon the availability of a definitive tax assessment or the issue of announcements or regulations by the competent authorities promulgating definitive tax assessment rules, the Manager will, as soon as practicable, make relevant adjustments to the amount of tax provision as it considers necessary.

2. Change of publication frequency of net asset value

To improve transparency, the net asset value per unit of each Fund will be published more frequently in the Standard and the Hong Kong Economic Times on a daily basis.

The Offering Documents will be updated to reflect the above changes as soon as practicable, and will be available free of charge upon request at any time during normal business hours at the office of the Manager and on the Manager's website http://www.citics.com.hk/CSIInvestmentManagementFund.aspx[1].

The Manager accepts full responsibility for the accuracy of the information contained in this notice as at the date of its 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.

If you have any questions or concerns about the foregoing, please contact the Manager at Tel: (852) 2826 2913 or Fax: (852) 2526 1989.

We appreciate your ongoing support of the Trust as we continue to help investors like you achieve better outcomes.

CITIC Securities International Investment Management (HK) Limited

19 December 2014

[1] The website has not been reviewed by the Securities and Futures Commission.