CSI Alpha Fund Series (the "Trust")
- CSI RMB Income Fund
(the “Fund”)
CLSA Alternative Investment Management Limited
(previously “CITIC Securities International Investment Management (HK) Limited”)
(as Manager of the Trust and the Fund)
26th Floor, CITIC Tower,
1 Tim Mei Avenue, Central,
Hong Kong

NOTICE

IMPORTANT: This notice requires your immediate attention. If you have any questions about the content of this notice, you should seek independent professional advice.

Unless otherwise indicated, all undefined capitalised terms have the same meanings in this notice as in the Trust Prospectus for the Trust and the Fund Specific Prospectus for the Fund (collectively the “Prospectuses”).

Dear Unitholders,

Following a review of the Fund’s existing operation, we would like to inform you that we, as the Manager of the Fund, have decided to terminate the Fund as we consider the total expense ratio is relatively high compared with the yield of investments of the Fund. The Net Asset Value (NAV) of the Fund as at 29 September 2017 was RMB 120,025,734.72. The total expense ratio of the Fund as at 30 June 2017 was 1.69%[1].

For this reason, we consider it is in the best interest of Unitholders to terminate the Fund and the Trustee has given its approval to terminate the Fund. Pursuant to Clauses 9.3 and 9.4 of the Trust Deed of the Fund dated 25 June 2009 (as amended, restated and supplemented from time to time) (“Trust Deed”), with the approval of the Trustee and the Securities and Futures Commission, the Manager hereby gives not less than three (3) months’ notice to all Unitholders to terminate the Fund. The termination will only be completed after the Manager and the Trustee have formed an opinion that the Fund has no outstanding contingent and actual liabilities and assets, which is subject to the completion of liquidation audit and any applicable regulatory clearance and approval, including the Mainland Chinese tax clearance. The termination is expected to be completed as soon as possible after the settlement of the Mainland Chinese tax by around May 2018.

With effect from the date of this Notice, the Fund is no longer allowed to be marketed or offered to the public in Hong Kong and is closed for new subscriptions. The last Dealing Day of the Fund will be 19 January 2018 (the “Last Dealing Day”) (i.e no less than 3 months after the date of this Notice). The units of the Fund will cease dealing as from 20 January 2018 and no dealing of units will be allowed.

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[1] The total expense ratio is based on the expense for the unaudited period of 1 January 2017 to 30 June 2017 divided by the average Net Asset Value of the Fund over the same period.

As part of the termination process, the Manager will sell all investments of the Fund to the extent that is practicable prior to the Last Dealing Day. It is anticipated that the Fund will, following the realization and liquidation of the investments, hold a substantial amount of cash prior to the Last Dealing Day. Unitholders should note that the Fund may as a result deviate from the investment objectives and policies and not be able to fully comply with the investment restrictions set out in the Prospectuses and Key Facts Statement of the Fund.

From the date of this Notice, retail Unitholders may redeem their Units in accordance with the applicable procedures set out in the Prospectuses free of charge at any time before the Last Dealing Day. While no further fee is charged by the Manager, the authorized distributors of the Fund however may charge other fees in respect of the aforesaid transactions. If you remain a Unitholder in the Fund on the Last Dealing Day, the proceeds from the realization and liquidation of the investments will be distributed to the Unitholders as soon as reasonably practicable after the Last Dealing Day according to the Units held by you on the Last Dealing Day, in any case, within one month from the Last Dealing Day, i.e 19 February 2018.

The Fund does not hold any suspended stocks as of the date of this Notice. However, should there be any suspension of the stocks held by the Fund after the date of this Notice and those stocks remain suspended on the Last Dealing Day (the "Suspended Stocks"), those Suspended Stocks can only be sold when the suspension is lifted. There is no certainty as to when such Suspended Stocks will resume trading. As a result, it may not be possible for the Fund to realize and liquidate all of its positions by the Last Dealing Day. In that case, the Manager will issue a further notice to Unitholders to update the latest status of the termination process. In order to avoid undue delay or disruption with respect to the termination, the proceeds from the sale of the stocks other than the Suspended Stocks will be distributed to the Unitholders as soon as reasonably practicable after the Last Dealing Day according to the Unitholders' entitlement on the Last Dealing Day. Proceeds from the sale of the Suspended Stocks will be distributed to these Unitholders on a pro rata basis as soon as reasonably practicable after the sale of such Suspended Stocks once they resume trading.

Please note that the termination cost of the Fund is estimated to be HKD400,000 and it will be borne by the Manager. No unamortized preliminary expense was found in the latest valuation. The Manager has decided to waive the management fee and bear the ongoing charges for the Fund with effect from the date of this Notice.

Mainland Chinese tax

Please also note the following in relation to the Mainland Chinese tax prepared after taking independent and professional tax advice:-

(a) Interest income

As at the date of this Announcement, the Manager has been making a provision for 10% Chinese withholding income tax on coupon interest of non-government bonds (e.g. corporate bonds and policy bank bonds). As at 4 July 2017, the Fund has a tax provision of RMB257,837.97 for accrued interest receivable from its bond investments.

(b) Value-added tax

On 23 March 2016, the Ministry of Finance (the "MOF") and the State Administration of Taxation (the "SAT") jointly issued a notice Caishui [2016] No.36 which provides detailed implementation guidance on the rollout of Chinese Value-Added Tax ("VAT"). From 1 May 2016, VAT has replaced Business Tax ("BT") to cover all sectors that used to fall under the BT regime. Pursuant to Notice No.36, coupon interest income from PRC government bonds or local government bonds approved by the State Council is exempt from VAT. However, in the absence of any specific VAT exemption granted to QFIIs / RQFIIs under this regime, other PRC bond coupon interest income (e.g. financial bonds, policy bonds, corporate bonds) derived by overseas investors from Mainland China is technically subject to 6% VAT (and surtaxes of up to 13% on the VAT payable). The regime is subject to further clarification by the SAT and/or the MOF, and there is uncertainty on the implementation of the VAT regime on RQFII funds such as the Fund.

In view of the above uncertainty, the Manager has decided that no provision be made in the Fund in relation to VAT as the amount of VAT exposure is not material.

(c) Capital gains tax

Although there is no written circular confirming the PRC taxation position of gains derived from the trading of Mainland Chinese debt securities, based on SAT and local tax authorities' verbal interpretation and the existing practice of the Mainland Chinese tax authorities, the Manager considers that gross realised capital gains derived by the Fund from trading of Mainland Chinese debt securities since inception are not subject to Chinese capital gains tax. As such, no provision for Chinese capital gains tax has been made on gross realised or unrealised capital gains derived by the Fund.

In consultation with professional tax adviser, the Manager is in the process of preparing tax filing to the relevant Mainland Chinese tax authorities to confirm or settle the above Mainland Chinese tax liabilities under (a), (b) and (c). Based on the Manager's best efforts, and reasonable expectations with due consideration as to the time frame needed to obtain Mainland Chinese tax clearance, this process is expected to be completed by May 2018 subject to the Mainland Chinese tax authorities.

At present, if there is any over/under provision of the relevant Mainland Chinese tax, the Manager considers the impact of such over/ under provision on the Fund's NAV is not material. In any event, upon the settlement of the Mainland Chinese tax with the Mainland Chinese tax authorities, the Manager will bear the shortfall if the provision is lower than the final tax liabilities in respect of all types of Mainland Chinese tax discussed above. On the other hand, if the provision is higher than the final tax liabilities, the Manager will distribute such overprovision amount to the Unitholders who remain in the Fund on the Last Dealing Day. The Manager will issue an announcement in or around May 2018 or any other dates if the Mainland Chinese tax clearance is obtained earlier than May 2018 to confirm whether there will be any further distribution and, if so, such announcement will disclose the amount of further distribution which will be payable as soon as possible after the Mainland Chinese tax is settled. However, in case where the net amount will not be able to cover the administrative cost for distribution, the Manager will donate the net amount for charity purpose and no distribution will be made.

Tax implications to Hong Kong investors

No tax is expected to be payable by Unitholders in Hong Kong in respect of dividends or other income distributions of the Fund or in respect of any gains arising on a sale, realization or other disposal of Units, except that Hong Kong profits tax may arise where such transactions form part of a trade, profession or business carried on in Hong Kong and the Units from part of the trading assets of the Unitholder.

The redemption of units by Unitholders for cancellation should not be subject to Hong Kong stamp duty. No Hong Kong stamp duty is payable where the sale or transfer of Units is effected by selling the Units back to the Manager, who then either extinguishes the Units or resell the Units to another person within two (2) months thereof. The Unitholders/ investors are recommended to consult their independent professional advisors on the taxation and other consequences if any arising from the redemption of Units of the Fund.

The Prospectuses, Trust Deed and other documents of the Fund are also available for inspection at the Manager's place of business in Hong Kong during normal business hours.

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 by telephone at (852) 2826 2913, or Fax at (852) 2526 1989 or by post to 26th Floor, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong.

CLSA Alternative Investment Management Limited

20 October 2017