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This notice is important and requires your immediate attention. If you are in any doubt about the contents of this notice, you should consult your stockbroker, bank manager, solicitor, accountant or other financial adviser for independent professional advice.

Pickers Capital Management Limited (the "**Manager**") accepts full responsibility for the accuracy of the information contained in this notice and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief at the date hereof, there are no other facts the omission of which would make any statement misleading and that opinions expressed in this notice have been arrived at after due and careful consideration.

Investments involve risks, including the loss of principal. You are advised to consider your investment objectives and circumstances in determining the suitability of an investment in the Sub-Fund. An investment in the Sub-Fund may not be suitable for everyone.

SFC authorisation is not a recommendation or endorsement of a scheme nor does it guarantee the commercial merits of a scheme or its performance. It does not mean the scheme is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.

CFund – China Equity

(the "Sub-Fund")

*(a sub-fund of CFund (the "**Trust**"), a Hong Kong umbrella unit trust, authorised under Section 104 of the Securities and Futures Ordinance (Cap. 571) of the laws of Hong Kong)*

Notice to Unitholders

All capitalised terms in this notice shall have the same meaning as in the Explanatory Memorandum of the Trust and the Sub-Fund (the "Explanatory Memorandum") dated 14 December 2018 as amended from time to time, unless otherwise stated.

Dear Unitholders,

We, the Manager of the Trust and the Sub-Fund, wish to inform you that, with effect from 31 December 2019 (the "**Effective Date**"), the following changes will be made:

A. Changes in Investment Strategy

Currently, the investment strategy of the Sub-Fund is as follows:

(i) The Sub-Fund primarily invests in stocks listed in Hong Kong, Shanghai and/or Shenzhen. Generally, the asset allocation strategy is that at least 70% of the Sub-Fund's non cash assets will be invested in stocks listed in Hong Kong of companies established in China or those which, whilst established outside China, derive a significant proportion of their revenue or profits from business related to China, and 0% to 20% of the Sub-Fund's non cash assets will be invested in stocks listed in Shanghai and/or Shenzhen (including stocks in the ChiNext market and/or stocks listed on the Small and Medium Enterprise Board ("**SME Board**")).

(ii) The Sub-Fund may use derivatives for hedging and/or investment purposes provided that such investments shall comply with the investment restrictions set out in Chapter 7 of the Code. The derivative instruments used by the Sub-Fund for investment purposes will broadly fall under two categories: (i) participatory notes, which do not create any leverage and are used primarily for accessing the A-share market, B-share market and Taiwan; and (ii) exchange-traded or over-the-counter futures contracts and options, which create leverage and are used primarily for gaining market exposure in a timely and cost effective manner (e.g. during times of large subscription inflow or in the event of sharp market movements).

From the Effective Date, the investment strategy of the Sub-Fund will be changed so that:

(i) under normal circumstances, at least 70% of the Sub-Fund's Net Asset Value will be invested in stocks of companies established in China or those which, whilst established outside China, derive a significant proportion of their revenue or profits from business related to China (including but not limited to investment in depositary receipts).

(ii) subject to an overall upper limit on onshore PRC exposure of 20% of the Sub-Fund's Net Asset Value, up to 20% of the Sub-Fund's Net Asset Value will be invested in stocks listed in Shanghai (including stocks listed on the sci-tech innovation board of the SSE (the "STAR Board")) and/or Shenzhen (including stocks in the ChiNext market and/or stocks listed on the SME Board).

(iii) the Sub-Fund may invest up to 30% of its Net Asset Value in bonds, including fixed income securities that are investment grade, below investment grade (i.e. below BBB-/Baa3 by an internationally recognised credit rating agency, such as Standard & Poor's, Moody's and/or Fitch) and unrated (meaning neither the security itself nor its issuer has a credit rating) and convertible bonds. Exposure to bonds may also be obtained indirectly through investing in ETFs that invest in bonds. Subject to an overall upper limit on onshore PRC exposure of 20% of the Sub-Fund's Net Asset Value, the Sub-Fund may invest up to 20% of its Net Asset Value in onshore China debt securities via the Bond Connect (as described below) and may invest up to 10% of its Net Asset Value in urban investment bonds (城投債) (as described below).

(iv) in addition to participatory notes and exchange-traded or over-the-counter futures contracts and options, the Sub-Fund may use swaps that do not create leverage and used primarily for market access such as the A-Share market, B-Share market and Taiwan subject to its net derivative exposure being up to 50% of its Net Asset Value.

The Investment Strategy Changes are made with an aim to meet market demands in terms of providing exposure to Chinese-related companies listed outside Hong Kong and to debt securities.

<u>Bond Connect</u>

Bond Connect is an initiative launched in July 2017 for mutual bond market access between Hong Kong and mainland China ("**Bond Connect**") established by China Foreign Exchange Trade System & National Interbank Funding Centre, the China Central Depository & Clearing Co., Ltd. ("**CCDC**"), Shanghai Clearing House, and Hong Kong Exchanges and Clearing Limited and Central Moneymarkets Unit.

Under the prevailing regulations in China, eligible foreign investors will be allowed to invest in the bonds circulated in the PRC inter-bank bond market through the northbound trading of Bond

Connect ("**Northbound Trading Link**"). There will be no investment quota for Northbound Trading Link.

Urban investment bonds

Urban investment bonds are debt instruments issued by local government financing vehicles ("**LGFVs**") in the China listed bond and interbank bond market. These LGFVs are separate legal entities established by local governments and/or their affiliates to raise financing for public welfare investment or infrastructure projects.

Risks associated with depositary receipts

Exposure to depositary receipts including American Depository Receipts ("**ADRs**") may generate additional risks compared to a direct exposure to the corresponding underlying stocks, in particular, the risk of non-segregation under applicable law of the depositary bank who hold the underlying stock as collateral and its own assets. In case of bankruptcy of the depositary bank, there could be a risk that the underlying shares would not be attributed to holders of depositary receipts, although segregation is an integral part of the depositary agreement regulating the issuance of the ADRs. In such case, the most likely scenario would be the trading suspension and thereafter a freeze of the price of the depositary receipts impacted by such bankruptcy event. Bankruptcy events in respect of the depositary banks issuing the depositary receipts may negatively affect the performance and/or the liquidity of the Sub-Fund. There are fees related to depositary receipts, for example fees charged by banks for the custody of underlying assets of depositary receipts, which may impact the performance of the depositary receipts. Also, holders of depositary receipts are not direct shareholders of the underlying company and generally do not have voting and other shareholder rights as shareholders do. The Sub-Fund may also be subject to liquidity risk as depositary receipts are often less liquid than the corresponding underlying stocks.

Risk of investing in fixed income securities

Although the Sub-Fund will predominantly be invested in equity, it may invest up to 30% of its Net Asset Value in fixed income instruments – there are risks involved in such investments. Please refer to "Risk of investing in fixed income securities" under the section headed "RISK FACTORS" in the main body of the Explanatory Memorandum.

Sovereign debt risk: The Sub-Fund's investment in securities issued or guaranteed by governments may be exposed to political, social and economic risks. In adverse situations, the sovereign issuers may not be able or willing to repay the principal and/or interest when due or may request the Sub-Fund to participate in restructuring such debts. The Sub-Fund may suffer significant losses when there is a default of sovereign debt issuers.

Credit rating agency risk: In respect of investments in PRC onshore debt securities, the credit appraisal system in the PRC and the rating methodologies employed in the PRC may be different from those employed in other markets. Credit ratings given by PRC rating agencies may therefore not be directly comparable with those given by other international rating agencies.

Urban investment bond risks: The Sub-Fund may invest in urban investment bonds. Although urban investment bonds, which are issued by LGFVs, may appear to be connected with local government bodies, they are typically not guaranteed by such local government bodies or the central government of the PRC. As such, local government bodies or the central government of the PRC are not obligated to support any LGFVs in default. In the event that the LGFVs default on payment of principal or interest on any urban investment bonds within the Sub-Fund's portfolio, the Sub-Fund may suffer significant loss and the Net Asset Value of the Sub-Fund may be adversely affected.

Risks associated with convertible bonds

Convertible bonds are hybrid securities that may be exchanged for, converted into or exercised to acquire a predetermined number of shares of the issuer, generally at the option of the holder, during a specified time period. Convertible bonds have characteristics of, and hence are subject to the risks associated with, both debt and equity securities. Convertible bonds are similar to fixed income securities because they usually pay a fixed interest rate and are obligated to repay principal on a given date in the future. Similar to debt securities, they are sensitive to changes in interest rates and credit standing of the issuer particularly when their conversion value (which is the security's worth, at market value, if converted into the underlying shares) is lower than their investment value (which is determined by its yield in comparison with the yields of other comparable securities that do not have a conversion privilege). Convertible bonds also have characteristics similar to the equity securities and their prices are particularly sensitive to fluctuations in the price of the underlying shares when their conversion value approximates or exceeds their investment value. It should be noted, however, that some convertible bonds are callable by the issuer, which means that their potential to appreciate along with appreciation of the value of the underlying shares is limited. Investors should refer to the general risk factors relating to both fixed income securities (for example, interest rate risk and credit risk) and equity securities (for example, risks relating to price fluctuations of the underlying shares).

Risks associated with PRC Inter-bank Bond Market

Market volatility and potential lack of liquidity due to low trading volume of certain debt securities in the PRC inter-bank bond market may result in prices of certain debt securities traded on such market fluctuating significantly. The Sub-Fund is therefore subject to liquidity and volatility risks. The bid and offer spreads of the prices of such securities may be large, and the Sub-Fund may therefore incur significant trading and realisation costs and may even suffer losses when selling such investments.

The Sub-Fund is also exposed to risks associated with settlement procedures and default of counterparties. The counterparty which has entered into a transaction with the Sub-Fund may default in its obligation to settle the transaction by delivery of the relevant security or by payment for value.

For investments via the Bond Connect, the relevant filings, registration with the PBOC and account opening have to be carried out via an onshore settlement agent, offshore custody agent, registration agent or other third parties (as the case may be). As such, the Sub-Fund is subject to the risks of default or errors on the part of such third parties.

Debt securities purchased via Bond Connect will be held in the name of the Central Moneymarkets Unit. The Sub-Fund's ownership in those debt securities may not be reflected directly in record entry with CCDC/ Shanghai Clearing House and will instead be reflected on the records of the Central Moneymarkets Unit. The Sub-Fund may therefore depend on Central Moneymarkets Unit's ability or willingness as the record holder of debt securities purchased under Bond Connect to enforce the Sub-Fund's ownership rights. If the Sub-Fund wishes to directly enforce its ownership rights or creditor rights against the bond issuers, there lacks judicial precedents in China on whether such an action will be recognised and enforced by the Chinese courts.

Investing in the PRC inter-bank bond market via Bond Connect is also subject to regulatory risks. The relevant rules and regulations on these regimes are subject to change which may have potential retrospective effect. In the event that the relevant Mainland Chinese authorities suspend account opening or trading on the PRC inter-bank bond market, the Sub-Fund's ability to invest in the PRC inter-bank bond market will be adversely affected. In such event, the Sub-Fund's ability to achieve its investment objective will be negatively affected.

By investing in the PRC inter-bank bond market, the Sub-Fund may be at risk of being subject to PRC taxes. There is a possibility that the current tax laws, rules, regulations and practice in the PRC and/or the current interpretation or understanding thereof may change in the future and such change(s) may have retrospective effect. The Sub-Fund could become subject to additional taxation that is not anticipated as at the date hereof or when the relevant investments are made, valued or disposed of. Any of those changes may reduce the income from, and/or the value of, the relevant investments in the Sub-Fund.

B. Change in distribution policy

Currently the Sub-Fund does not pay dividend out of capital or effectively out of capital. With effect from the Effective Date, the distribution policy of the Sub-Fund will be revised so that the Manager may, at its discretion, pay dividend (i) out of capital, or (ii) out of gross income while all or part of the fees and expenses of the Sub-Fund are charged to/paid out of the capital of the Sub-Fund, resulting in an increase in distributable income for the payment of dividends by the Sub-Fund and therefore, the Sub-Fund may effectively pay dividend out of capital (the "**Dividend Policy Change**"). The reason for this change is to provide flexibility in the distribution policy of the Sub-Fund and to allow a "distribution" Class of Units to be offered (please refer to section C below for details).

Payment of dividends out of capital or effectively out of capital amounts to a return or withdrawal of part of an investor's original investment or from any capital gains attributable to that original investment. Any distributions involving payment of dividends out of or effectively out of the Sub-Fund's capital may result in an immediate reduction of the Net Asset Value per Unit.

Where payment of dividends is being made out of capital or effectively out of capital, the compositions of the dividends (i.e. the relative amounts paid from net distributable income and capital) for the last 12 months (a rolling 12-month period starting from the date on which payment of dividends is being made out of capital or effectively out of capital) will be available from the Manager on request and on the Manager's website www.pickerscapital.com (this website has not been reviewed by the SFC).

<u>Distributions payable out of capital or effectively out of capital risk</u>

In circumstances where the net distributable income of a class is insufficient to pay for any dividend which may be declared, the Manager may, at its discretion, (i) pay dividend out of capital of a Sub-Fund; or (ii) pay dividend out of gross income of a Sub-Fund (that is, income before taking into account any fees or expenses) while charging all or part of such Sub-Fund's fees and expenses to the capital of the Sub-Fund, resulting in an increase in distributable income for the payment of dividends by the Sub-Fund and therefore, the Sub-Fund may effectively pay dividend out of capital. Payment of dividends out of capital or effectively out of capital may require the Manager to sell the assets of the Sub-Fund and amounts to a return or withdrawal of part of an investor's original investment or from any capital gains attributable to that original investment. Any distributions involving payment of dividends out of capital or effectively out of capital of a Sub-Fund (as the case may be) may result in an immediate reduction of the Net Asset Value per Unit of the relevant class.

Where any distribution involves payment of dividends out of capital and/or effectively out of capital of the Sub-Fund, investors should note that a high distribution yield does not imply a positive or high return on the total investment.

Please refer to "Distributions payable out of capital or effectively out of capital risk" under the section headed "RISK FACTORS" in the main body of the Explanatory Memorandum.

Impact of the Dividend Policy Change

Other than the additional risks associated with distributions payable out of capital or effectively out of capital (as detailed above), there is no material change to the features and the risk profile of the Sub-Fund. There is no change in the operation of the Sub-Fund or the manner in which the Sub-Fund is being managed as a result of the Dividend Policy Change. There is no change in the fee level/cost in managing the Sub-Fund following the implementation of the Dividend Policy Change. The costs (including legal fees and translation fees) incurred in connection with the Dividend Policy Change will be approximately HK$16,500 and borne by the Sub-Fund. The Manager is of the view that there are no matters/impact arising from the Dividend Policy Change that may materially prejudice the existing investors' rights or interests.

The Trustee of the Trust does not have any objection to the Dividend Policy Change.

C. New Unit class

With effect from the Effective Date, the following two new classes of Units will be available for subscription:

(i) Class A HKD (Distribution) Units, which will be denominated in HKD and will have the same features as the existing Unit class save for its distribution policy. The Manager currently intends to make quarterly dividend distributions in respect of Class A HKD (Distribution) Units at the Manager's discretion. Dividends may be paid out of capital or effectively out of capital of the relevant Class, and may result in an immediate reduction of the Net Asset Value per Unit of the Sub-Fund. There is no guarantee of any distribution nor, where distribution is made, the amount being distributed.

(ii) Class A RMB (Accumulation) Units, which will be denominated in RMB and will have the same features as the existing Unit class save for the currency of denomination.

Accordingly, from the Effective Date, the existing class of Units "Class A HKD" will be referred to as "Class A HKD (Accumulation) Units".

Existing Unitholders of Class A HKD (Accumulation) Units may switch some or all of their Units to Class A HKD (Distribution) Units from the Effective Date. Any switching fee for the switching from Class A HKD (Accumulation) Units to Class A HKD (Distribution) Units will be waived by the Manager if the request for switching of Units is submitted by the relevant Unitholder within three months from the Effective Date. For the avoidance of doubt, under the Trust Deed, the Manager is entitled to impose a switching fee as described in the section headed "EXPENSES AND CHARGES" in the Explanatory Memorandum. Switching will be by way of redeeming the Units held by the relevant Unitholders in accordance with the redemption procedures set out in the section headed "REDEMPTION OF UNITS" in the Explanatory Memorandum and by re-investing the redemption proceeds thereof in Class A HKD (Distribution) Units.

D. UT Code updates

The SFC has published a revised Code on Unit Trusts and Mutual Funds (the "**Code**") which came into effect on 1 January 2019. The revised Code contains certain disclosure and content requirements relating to the constitutive documents and offering documents of a fund.

To reflect the provisions and requirements of the revised UT Code, the Explanatory Memorandum and Product Key Facts Statement of the Sub-Fund (collectively, the "**Offering Documents**") will be amended and the Trust Deed of the Trust ("**Trust Deed**") will be amended and restated.

In particular, the following will be updated:

(i) the investment restrictions applicable to the Trust and the Sub-Fund will be revised to reflect the updated investment restrictions under Chapter 7 of the revised Code; and

(ii) the maximum borrowing of the Sub-Fund will be reduced from 25% to 10% of its Net Asset Value.

E. Change of directors of the Manager

With effect from 31 December 2019, Mr. Chan Pong Chi will resign as a director of the Manager of the Sub-Fund. The directors of the Manager thereafter will be Mr. Lee Ho Tak and Mr. Lau Ada Hiu-Yee.

F. General

The revised Offering Document reflecting the changes described above will be made available on or around the Effective Date on the Manager's website at www.pickerscapital.com (this website has not been reviewed by the SFC) and at the Manager's office during normal working hours. A copy of the amended and restated Trust Deed of the Trust will be made available for inspection free of charge at the Manager's office during normal working hours.

If you have any questions or require further information, please contact the Manager during normal working hours at Flat 01, 13/F, Ovest, 77 Wing Lok Street, Sheung Wan, Hong Kong or by telephone at +852 2989 1093.

The Manager accepts responsibility for the information contained in this notice as being accurate at the date hereof.

Pickers Capital Management Limited
29 November 2019