Newsletter June 2011

Figures as of	June 30, 2011
Net Asset Value	USD 132.74, CHF 88.49, EUR 118.09
Fund Size	USD 136.4 million
Inception Date*	May 27, 2003
Cumulative Return	277.4% in USD
Annualized Return	17.8% in USD

* The track record is the combination of two consecutive track records of China Investment Corporation (CIC) and HSZ China Fund (HCF). From May 27, 2003 to November 17, 2006 it is the performance of CIC, a trust account managed by HSZ (Hong Kong) Limited for listed Chinese equities. Since the launch of HCF on November 17, 2006 it is the performance of HCF.

Net Asset Value (Monthly)

Performance

	June	YTD	1 Year	Nov 17, 06
USD Class	(2.8%)	(1.5%)	+16.3%	+32.7%
CHF Class	(4.9%)	(11.8%)	(10.8%)	(11.5%)
EUR Class	(3.5%)	(8.7%)	(-1.8%)	+18.1%

Largest Holdings

Anta Sports Products Ltd	6.0%
China Merchants Bank	5.6%
AAC Technologies	5.3%
Ajisen China Holdings Ltd	5.2%
Ping An Insurance Group	5.0%
Belle International	5.0%

Exposure

Consumer Discretionary	38.8%
Financials	23.3%
Industrials	20.3%
Energy	7.3%
Consumer Staples	5.8%
Cash	4.5%

- Premier Wen shows confidence on Chinese economy
- Oriental Watch profit surges on better operating margin
- KWG buys commercial project
- Xinyi Glass is a leading integrated glass maker in China

In June, consumer inflation is still running at a high level, recording a new high of 5.5 percent from a year earlier. While retail sales slowed a bit by 0.2 percentage points to 16.9 percent year on year in nominal terms, fixed asset investment continued to grow at 25.8 percent for the first five months this year, on track to achieve another year of 25 percent growth as it did in the past years, as more social housing projects will be launched later this year. On June 22, Premier Wen made a remark in the Financial Times on his confidence in containing inflation while maintaining steady growth for the Chinese economy. Inflation is likely moderate on the back of a higher base into the second half and the previous domestic tightening taking hold, which could lead to policy normalization and is supportive for Chinese equities.

Oriental Watch's turnover for the full year ended March 31, 2011 was HKD 3'849 million, increased by 18.7 percent year on year. Hong Kong and the PRC & Macau segment accounted for 69 percent and 31 percent of the total revenue respectively. Gross margin improved 1.7 percentage points to 16.9 percent. Operating margin improved significantly from 4.5 percent to 7.1 percent on lower expense ratios. Net profit jumped 95 percent year on year to HKD 219 million. Earnings per share was HKD 52 cents with dividend payout ratio of 15 percent. The company is now operating 12 shops in Hong Kong, 2 shops in Macau, 37 shops in the PRC and 2 associate shops in Taiwan.

KWG achieved CNY 5.53 billion contracted sales for the first five months of 2011, representing 37 percent of the full year target. The company expects more sales in the second half of the year with 6 new launches from the existing residential and commercial projects. During May, the major contributing projects are Guangzhou International Creative Valley, Suzhou Sapphire, Chengdu Cosmos and Suzhou Apex. In June, KWG acquired a piece of commercial-use land in Beijing with gross floor area of 16'425 square meters at CNY 710 million. The land is located close to the East Second Ring and Guangqu Road intersection and is in close proximity to Beijing Central Business District and the Beijing Train Station.

We initiated a position in Xinyi Glass, one of the leading integrated glass makers in China. It produces auto glass, high-quality float glass and construction glass. Xinyi Glass is also a pioneer in construction low-E and photovoltaic (PV) glass with a strong franchise. With its first-mover advantage in PV and low-E glass, Xinyi would benefit from surging solar energy demand, social housing policy and increasing penetration of low-E glass in China. We believe Xinyi is an attractive investment on the back of rapid expansion on high margin products supported by strong branding and integrated model.

General Information

Name	HSZ China Fund
Theme	Entrepreneurial China
Nature	Long-only equity fund, actively managed for absolute return
Focus	Listed Chinese equities focusing on privately controlled companies

Structure	Swiss investment fund, regulated by FINMA, open-ended
Distributions	Income annually
Fiscal Year End	December 31
Reporting	Semi-annually in USD
Currency Classes	USD, CHF, EUR (all unhedged)
Trading	Daily issuance and redemption, based on net asset value

Fund Manager	Swiss Investment Company SIC Ltd., Zurich
Custodian Bank	Clariden Leu Ltd., Zurich
Investment Manager	HSZ (Hong Kong) Limited, Hong Kong
Auditors	KPMG Ltd.
Management Fee	1.5% annually
Performance Fee	10% above hurdle rate of 5%, high water mark
Issuance Fee	Maximum 5%
Redemption Fee	None

USD Class	ISIN CH0026828035, Valor 2682803 WKN A0LC13 Bloomberg HSZCHID SW Equity
CHF Class	ISIN CH0026828068, Valor 2682806 WKN A0LC15 Bloomberg HSZCFCH SW Equity
EUR Class	ISIN CH0026828092, Valor 2682809 WKN A0LC14 Bloomberg HSZCHEU SW Equity
Orders via Banks	Clariden Leu Ltd., Bahnhofstrasse 32 8001 Zurich, Switzerland Tel: +41 58 205 2121 Fax: +41 58 205 2191

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Investment Opportunity

Once the world’s largest trading power, China's gradual decline during the second millennium culminated in the Maoist purgatory. However, since the 1980s economic development has taken center stage. China has become the engine of the fastest growing region in the world attracting substantial foreign investments and developing into the world's manufacturing hub. Furthermore, an increasing middle class is fuelling demand for consumer products. The growth momentum is set to continue as China strives to catch up with mature economies, producing attractive investment opportunities.

Investment Strategy

The objective of HSZ China Fund is to create sustained shareholder value by acquiring and managing equity and equity-linked investments in a select number of high-quality companies that are rooted in China. At least two-thirds of the total assets are to be invested in companies which are domiciled in China or participate as holding companies in enterprises domiciled there. At most one-third of the total fund volume can be invested in equity oriented stocks and money market instruments of issuers worldwide. Based on fundamental analysis and a bottom up approach, investment opportunities are identified that are assessed to provide above-average return on invested capital, have strong earnings per share growth and are priced attractively.

Risk Management

The Chinese stock market has many of the particular risks and characteristics of emerging markets. HSZ (Hong Kong) Limited exerts itself for reducing specific risks by accurately screening and monitoring high quality assets. That is why the long-lived experience of its specialists based locally is invaluable for investors. The fund is well diversified to avoid concentration risk. The weight of each position in the portfolio is subject to a maximum limit of 15%. No portfolio leverage is employed. The fact that HSZ China Fund invests in listed equity provides the investor with a reasonable degree of liquidity.

Investment Manager

HSZ (Hong Kong) Limited is a Hong Kong based independent investment management company. Its investment team has been managing Asian equity portfolios since 1994.