

Figures as of	July 29, 2011
Net Asset Value	USD 129.08, CHF 82.74, EUR 116.46
Fund Size	USD 132.8 million
Inception Date*	May 27, 2003
Cumulative Return	267.0% in USD
Annualized Return	17.2% 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

	July	YTD	1 Year	Nov 17, 06
USD Class	(2.8%)	(4.2%)	+5.6%	+29.1%
CHF Class	(6.5%)	(17.6%)	(18.9%)	(17.3%)
EUR Class	(1.4%)	(10.0%)	(3.2%)	+16.5%

Largest Holdings

China Merchants Bank	5.6%	
Belle International	5.5%	
AAC Technologies	5.4%	
Anta Sports Products Ltd	5.2%	
Ports Design	5.0%	
Ping An Insurance	5.0%	

Exposure

Consumer Discretionary	36.7%	
Financials	24.4%	
Industrials	17.8%	
Energy	8.5%	
Consumer Staples	6.2%	
Cash	6.4%	

Newsletter July 2011

- China shows better than expected growth
- Ajisen suffers from negative news flow
- Chow Sang Sang is a leading gold and jewellery retailer in China

China's headline year on year GDP growth edged down to 9.5 percent in the second quarter from 9.7 percent in the preceding period, due to the phase out of the policy stimulus and the domestic tightening in China. On a seasonally adjusted annualized basis, GDP grew 8.7 percent quarter on quarter in the first quarter and 9.1 percent in the second, which is better than expected and alleviates the fears of a hard landing. Thanks to the high consumer confidence accompanied by robust income growth, retail sales demonstrated resilience, growing at 16.8 percent in nominal terms for the first six months. Given the aggressive rollout of social housing program, fixed asset investment maintained its momentum, growing at 25.6 percent for the first half and is on track to achieve another year of 25 percent growth as it did in the past years. Given the highly uncertain situation in the US and Europe, we believe there would be no further policy tightening and inflation is coming under control into the second half of the year.

Ajisen has suffered from intense negative news flow starting from July 24 and trading in its shares was suspended on August 5. The initial claims were on the company's pork bone ramen soup being made from soup concentrate instead of being freshly boiled from pork bones, which we believe was just a misinterpretation of the company's business model and therefore a non-event. However, the impact from the follow-on press coverage on the company's product quality was worse than expected. The later news focused on other issues, a penalty by the Chinese authorities for the use of the additive, sorbitol, in 2009 and misrepresentation of nutritional value in its advertisements. The use of sorbitol is allowable by Japanese and international standards and the ban of the additive in China had been relaxed in 2010. The event, on a standalone basis, should be a non-event, but does serve as an additional noise to aggravate the customers' concern on the company's reputation and food quality. On the other hand, we consider the misrepresentation of nutritional content and the company's hesitant reaction in addressing public concerns to be detrimental to the brand value. We have reduced one-third of the shares and await further development.

We initiated a position in Chow Sang Sang (CSS), a leading gold and jewellery retailer in Greater China. It is a major beneficiary of the robust demand for luxury goods driven by increasing wealth in China. CSS has a strong competitive advantage in sourcing, design, quality and inventory control over domestic players. Its unique self-operated network business model helps reduce execution risks and better control over product quality and image of the group. CSS operates its stores under two names, CSS and Emphasis Jewellery, the former provides a full range of products including gold and gem-set jewellery targeting mid-high end and the latter as a creative jewellery platform targeting young customers. With strong brand equity, established network and a unique business model, we are positive on the company's operating outlook.

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.