HSZ China Fund

Newsletter May 2012

Figures as of	May 31, 2012
Net Asset Value	USD 104.76, CHF 79.01, EUR 108.24
Fund Size	USD 104.0 million
Inception Date*	May 27, 2003
Cumulative Return	197.9% in USD
Annualized Return	12.9% 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

	May	YTD	1 Year	Nov 17, 06
USD Class	(8.0%)	5.0%	(23.3%)	4.8%
CHF Class	(1.8%)	8.2%	(15.1%)	(21.0%)
EUR Class	(2.2%)	9.0%	(11.6%)	8.2%

Largest Holdings

AAC Technologies	7.1%
China Merchants Bank	6.4%
Vinda International Holding	5.9%
Ping An Insurance	5.4%
Wharf (Holdings) Ltd	5.0%
Shui On Land	4.7%

Exposure

Consumer Discretionary	28.2%
Financials	27.4%
Industrials	18.7%
Consumer Staples	16.7%
Energy	4.0%
Cash	4.1%

- Macro data show deepening showdown
- Ports Design resumes trading of shares
- AAC reports strong first quarter results
- Sands China is the dominant mass gaming operator in Macau

The recent macro indicators in April surprised on the downside. Both retail sales and industrial production decelerated, growing at 14.1 percent and 9.3 percent respectively. Newly extended lending came in at CNY 682 billion in April, lower than the average monthly number of 820 billion for the first three months. China's official PMI fell to 50.4 in May from 53.3 in April, signaling a deepening slowdown. In response to the board-based slowdown, on May 12, the People's Bank of China announced a 50 basis points cut in the required reserve ratio to 20.0 percent for large banks, which was the third time in this untightening cycle. In view of the weaker than expected growth, we expect policy easing on both monetary and fiscal sides to be intensified to manage the downside risk to the Chinese economy.

Ports Design released the annual results of 2011 with an unqualified auditors' opinion and resumed trading of its shares on May 22. The delay in publication of the results and the ensuing trading suspension were due to the failure to fully disclose certain related party transactions for the financial year 2010. The transactions should have been recorded on a gross instead of net basis. As a result, the balance sheet and cash flow statement of 2010 were restated, with no impact on the profitability and financial position of the company. The incident does not involve misappropriation of money but is more a technical breach of the listing rules.

AAC's revenue increased by 23 percent year on year to CNY 1'192 million in the first quarter of 2012 driven by the increasing speaker box shipment to Apple's new iPad and the share gain at Samsung and Chinese handset manufacturers. Net profit came in at CNY 314 million, which grew 21 percent year on year. Management maintained its sales to grow by double digit in the second quarter, which is much better than the double digit sales decline for most other Apple suppliers. Gross margin is also expected to improve sequentially in the following quarters on the back of rising automation coupled with increasing value content.

We initiated a position in Sands China, the leading mass gaming operator in Macau, because it would benefit from the strong tourist growth in Macau and the opening of Sands Cotai Central which would further increase its market share in the gaming industry. The company generates more than 70 percent of its operating profit from the mass gaming segment, which carries higher margins and has a better growth visibility comparing with the VIP segment. The opening of Sands Cotai Central in April would solve the under-supply situation in hotel rooms while the expansion of immigration facilities would increase the handling capacity of Chinese visitors, which would be favorable to the mass gaming segment. Combined with its strong cashflow and generous dividend policy, we are optimistic on the performance of Sands China in the future.

General Information

Name	HSZ China Fund
Theme	Entrepreneurial China
Nature	Long-only equity fund, actively managed
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	Credit Suisse AG
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	Credit Suisse AG Mrs. Anita Wobmann Execution CS Fonds & 3rd Party SEBF 12, 8070 Zurich, Switzerland Tel: +4144 644 4254 Fax: +4158 205 7097

Contact & Website	HSZ (Hong Kong) Limited Unit 605A, 6/F, Tower 2 Lippo Centre, 89 Queensway Hong Kong Tel: +852 2287 2300 Fax: +852 2287 2380 www.hszgroup.com mail@hszgroup.com

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.