HSZ China Fund

Newsletter June 2012

- China cuts rates for first time in three years
- Vinda maintains its strong growth momentum
- Golden Eagle completes 75 percent of store expansion plan
- Sa Sa reports better than expected results

Chinese equities were lackluster in June on China's still weak macro figures despite the better than expected results from the Greek election. China's official PMI stabilized at 50.2 in June from 50.4 in May. The recent macro indicators in May showed no strong signs of recovery. Retail sales growth moderated to 13.8 percent year on year from 14.1 percent in the previous month. Industrial production picked up a tad to 9.6 percent. CPI inflation continued to trend lower, reaching 3.0 percent. Newly extended lending came in at CNY 793 billion in May, better than CNY 682 billion in April. On June 7, the People's Bank of China decided to cut both the benchmark one-year lending and deposit rates by 25 basis points to 6.31 percent and 3.25 percent respectively, which was the first time since December 2008. We continue to expect more policy loosening in the near term, which will support growth and manage the downside risk to the economy.

Vinda maintained its strong growth momentum in the first four months this year and management guided for a higher than 25 percent increase in turnover driven by the strong demand for its products and the ramp up of capacity added last year. The company continues to benefit from lower raw material costs as the pulp price has decreased by at least 12 percent year over year. Regarding the progress on the capacity expansion, the company plans to add 40'000 tons, 40'000 tons and 70'000 tons of capacity in September, October and December this year and the total capacity will reach 620'000 tons by the end of the year.

Golden Eagle opened two new stores in Yancheng and Changzhou in May. Combined with its four new stores opened in the first quarter, the company has completed 75 percent of its store expansion plan in 2012. Despite the recent sales growth of its Xinjiekou flagship store slowing down, our ground checking suggested that the operation floor area was the main bottleneck for the sluggish performance. Since Golden Eagle will double the gross floor area in its Xinjiekou store by 2013, given that the Xinjiekou store accounted for 35-40 percent of its profit in 2011, the expansion would be a strong growth driver for its net income next year.

Sa Sa reported a 31 percent growth in revenue to HKD 6.4 billion on the back of 14.4 percent and 13.4 percent increase in the ticket size and number of transactions for the financial year ended March 2012. Net profit grew 35.4 percent year on year to HKD 690 million with dividend per share increased by 17 percent to HKD 20 cents. Its operation in China improved significantly with turnover increased by 99.8 percent and same store sales growth accelerated from -3.0 percent in the first half to 10.5 percent in the second. Management guided to increase the number of outlets in China from 68 in 2011 to 94 in 2012 and aimed to achieve break even for its China operation in the fourth quarter of 2012. The company also guided for a 15 percent growth in turnover and a 12 percent same store sales growth in Hong Kong this year.

Figures as of	June 29, 2012
Net Asset Value	USD 102.15, CHF 76.05, EUR 104.16
Fund Size	USD 101.3 million
Inception Date*	May 27, 2003
Cumulative Return	190.4% in USD
Annualized Return	12.4% 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	(2.5%)	2.4%	(23.0%)	2.2%
CHF Class	(3.7%)	4.1%	(14.1%)	(24.0%)
EUR Class	(3.8%)	4.9%	(11.8%)	4.2%

Largest Holdings

AAC Technologies	6.4%
China Merchants Bank	6.3%
Ping An Insurance	6.0%
Vinda International	5.4%
Shui On Land	4.9%
Golden Eagle Retail	4.8%

Exposure

Consumer Discretionary	29.1%
Financials	28.1%
Consumer Staples	16.6%
Industrials	15.9%
Energy	4.0%
Cash	5.4%

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	Credit Suisse Funds AG
Custodian Bank	Credit Suisse AG
Investment Manager	HSZ (Hong Kong) Limited
Auditors	KPMG AG
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
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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.