

Figures as of	December 31, 2012
Net Asset Value	USD 118.15, CHF 84.04, EUR 114.85
Fund Size	USD 114.5 million
Inception Date*	May 27, 2003
Cumulative Return	235.9% in USD
Annualized Return	13.4% 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

	December	YTD	1 Year	Nov 17, 06
USD Class	4.1%	19.9%	19.9%	18.2%
CHF Class	2.5%	16.3%	16.3%	(16.0%)
EUR Class	2.5%	17.0%	17.0%	14.9%

Largest Holdings

China Merchants Bank	6.9%	
Ping An Insurance	6.6%	
Wharf Holdings	6.0%	
AAC Technologies	5.8%	
Belle International	5.7%	
Golden Eagle Retail	5.5%	

Exposure

Consumer Discretionary	31.5%	
Financials	30.8%	
Industrials	15.6%	
Consumer Staples	13.3%	
Energy	3.1%	
Cash	2.7%	

Newsletter December 2012

- China's annual conference emphasizes urbanization quality
- Macau gaming revenue reaches a new record in December
- Baidu debuts a new Siri-like app for smartphones in China
- Chow Sang Sang sees an improving sales trend

Chinese equities had a strong run in December, helped by the steadily improving macro environment in China and the tactical resolution of the US fiscal cliff. China's official PMI was flat at 50.6 in December, indicating a steady pace of expansion. Thanks to better domestic demand and restocking process, industrial production growth recovered steadily by 0.5 percentage point to 10.1 percent in November. Retail sales also edged up further to 14.9 percent. CPI remained within the comfort zone, growing at 2.0 percent. The annual central economic work conference was held on December 15-16. While maintaining continuity and stability in macroeconomic policies, the new leaders pledged to promote urbanization as an important driver of growth and to improve its quality, potentially through areas like household registration and healthcare systems, which bodes well for consumption and spending on social welfare system.

Sands China stood to benefit from the strong growth in gaming revenue in December. According to the Statistics and Census Service Department in Macau, the gaming revenue reached a new record and increased by 20 percent year over year to MOP 28.2 billion. Assuming the mass market was up 30 percent in December, it would imply a decent growth of 15 percent in the VIP segment, which is much better than the flattish growth as expected by the market. The extension of Guangzhou-Zhuhai Intercity railway also commenced operation on December 31, 2012, which would reduce the travel time from Guangzhou to Gongbei from two hours to 80 minutes. The railway extension should drive more traffic to Macau and Sands China would benefit most given its dominant position in the mass gaming segment.

Baidu released a proprietary voice assistant app for the Android smartphones in early December. Users can use their voice to make phone calls, send SMS, play songs and set alarms. The app also supports location based information queries, such as weather, nearby restaurants, flights and travel routes. Baidu claimed it as the first to apply the deep neural network (DNN) technology which would reduce the recognition error by 25 percent. Given its dominant position in internet search, Baidu is more experienced in voice recognition and the prediction of user's intention which would enhance the accuracy and provide a better user experience.

Chow Sang Sang witnessed a strong recovery in same store sales growth (SSSG) in November and reported a decent SSSG of high teens in Hong Kong and low teens in Mainland China. Luk Fook Jewelry, a peer of Chow Sang Sang, also achieved a robust sales growth in November and the management from Luk Fook expected to deliver 20 percent SSSG during the Christmas holiday. Given the retail outlets of Chow Sang Sang being all self-owned, it has higher fixed costs than peers and thus higher operating leverage on sales improvement.

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	0.5%
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
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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
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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.