HSZ China Fund

Newsletter March 2013

- China's property tightening supportive for end-users
- Shimao expects significant margin improvement this year
- AAC sees higher selling prices with stable margin this year
- Vinda continues to expand its market share in tissue papers

On March 1 the state council, the central government's cabinet, announced the national five measures aiming at reining in property price inflation. It called for strict implementation of the property capital gain tax, home purchase restrictions and differential credit policies at local levels for second home mortgages, especially for cities with surging prices. We believe the measures are pre-emptive in nature to avoid property prices from overrunning and should not be harsh enough to turn the property market into a downward spiral, given the importance of the sector to the economy and the current growth recovery still not being on a firm footing. Though we would not rule out some moderate tightening such as fine-tuning the mortgage terms for second home purchases, the property policy as a whole will likely remain encouraging for increasing supply and supportive for the first home buyers and upgraders.

Shimao announced that its revenue increased by 10 percent year over year to CNY 28.6 billion driven by a 19 percent increase in the gross floor area delivered but a 13 percent decrease in the average selling price. The decrease was due to the discounts offered as part of the efforts to clear unsold inventories and reduce the gearing of the company. As a result, core profit increased only slightly by 1 percent to CNY 5'723 million but the gearing ratio edged down by 26 percentage points to 56 percent. Dividend per share increased generously by 38 percent to HKD 55 cents. Management aimed to deliver at least 20 percent growth in contracted sales, which is well supported by its sellable resources, with gross margin to expand by at least 2 percentage points to 35 percent this year.

AAC's fourth quarter revenue soared 18 percent quarter on quarter to CNY 1'997 million. The top three customers now accounted for 76 percent of its turnover, up by 8 percentage points, as the company enlarged its market share from existing customers. Net profit surged 20 percent quarter on quarter to CNY 569 million. Management remained highly optimistic on the outlook this year and believed that the increasing allocation from Samsung, accelerating speaker-box penetration among Chinese smartphone vendors and customized acoustic products such as integrated receiver boxes for HTC One could drive selling prices and sales higher with margin sustainability.

Vinda announced a strong sales growth of 26 percent for the full year of 2012. Gross profit increased by 43 percent to HKD 1'855 million due to lower pulp costs and a better product mix. As part of their brand building strategy, advertising and promotion expenses grew 37 percent to HKD 493 million. As a result, net profit increased by 32 percent to HKD 536 million. Despite the tough competition last year, Vinda expanded its market share in tissue papers by 2 percentage points to 11 percent. Management expected the sales growth would outperform the industry again this year and aimed to deliver another year of decent growth in sales.

Figures as of	March 28, 2013
Net Asset Value	USD 114.85, CHF 85.29, EUR 115.48
Fund Size	USD 126.3 million
Inception Date*	May 27, 2003
Cumulative Return	226.6% in USD
Annualized Return	12.8% 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

	March	YTD	1 Year	Nov 17, 06
USD Class	(1.9%)	(2.8%)	4.4%	14.9%
CHF Class	0.6%	1.5%	10.3%	(14.7%)
EUR Class	0.6%	0.5%	8.8%	15.5%

Largest Holdings

AAC Technologies	7.9%
Wharf Holdings	6.9%
China Merchants Bank	6.6%
Sands China	6.3%
Ping An	6.2%
Mindray Medical	5.7%

Exposure

Financials	31.8%
Consumer Discretionary	31.2%
Consumer Staples	14.6%
Industrials	13.6%
Energy	2.9%
Cash	4.0%

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
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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.