

# **HSZ China Fund**

Investment Fund under Swiss Law (type: "other funds for traditional investments")

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Audited Annual Report as at December 31, 2013

**HSZ** Group



## Management and Statutory Bodies

### Management Company

Credit Suisse Funds AG, Zurich

### Board of Directors

- Dr. Thomas Schmuckli, Chairman (from April 10, 2013), Managing Director, Credit Suisse AG, Zurich
- Luca Diener, Vice President, Managing Director, Credit Suisse AG, Zurich
- Paul H. Arni, Member, Managing Director, Credit Suisse AG, Zurich
- Markus Graf, Member, Chief Executive Officer, Swiss Prime Site AG, Olten
- Lars Kalbreier, Member, Managing Director, Credit Suisse AG, Zurich
- Maurizio Pedrini, Member, Managing Director, Credit Suisse AG, Zurich
- Jürg Roth, Member, Managing Director, Credit Suisse AG, Zurich
- Christian Schärer, Member, Managing Director, Credit Suisse AG, Zurich
- Heinz Hofmann (until April 10, 2013), Chairman

### Executive Board

- Thomas Schärer, Chief Executive Officer
- Petra Reinhard, Deputy CEO
- Michael Bünzli, Member, Legal Counsel
- Thomas Federer, Member, Performance & Risk Management
- Daniel Siepman, Member, Fund Operations
- Patrick Tschumper, Member, COO
- Thomas Vonaesch, Member, Real Estate Fund Management
- Gabriele Wyss, Member, Compliance

### Custodian Bank

Credit Suisse AG, Zurich

### Audit Company

KPMG AG, Zurich

## Information on third parties

### Delegation of investment decisions

Investment decisions in respect of the investment fund have been delegated to HSZ (Hong Kong) Limited, Unit 605A, 6/F, Tower 2, Lippo Centre, 89 Queensway, Hong Kong, Hong Kong SAR.

### Delegation of other specific duties

The Fund Management Company has delegated the distribution and marketing duties of the investment fund to HSZ (Hong Kong) Limited as the main distributor. Precise details of how its remit is to be fulfilled are laid down in an agreement between the Fund Management Company and the main distributor.

The Fund Management Company has delegated certain fund administration duties to Credit Suisse AG, Zurich. These duties include providing legal and tax advice, managing the Fund Management Company's finances, real estate portfolio management and administration, facility management, human resources, the Management Information System (MIS), project and user support for fund accounting, risk management, and monitoring of the investment guidelines.

Further specific duties may be delegated to Credit Suisse AG, Zurich. Precise details of how its remit is to be fulfilled are laid down in an agreement between the Fund Management Company and Credit Suisse AG, Zurich.

The fund management company has delegated certain fund administration duties to Credit Suisse (Poland) Sp.z.o.o., Wroclaw. These duties include the areas of product master data, price publications, factsheet production, KIID production, and report preparation.

Further specific duties may be delegated to Credit Suisse (Poland) Sp.z.o.o., Wroclaw. Precise details of how its remit is to be fulfilled are laid down in an agreement between the fund management company and Credit Suisse (Poland) Sp.z.o.o., Wroclaw.

**Unaudited  
Report on  
Activities from  
January 1, 2013  
to Decem-  
ber 31, 2013\***

**Review**

2013 was a year of reforms for China. After a decade of double digit growth, the Chinese economy started losing momentum, with imbalances building up to a level with a risk of jeopardizing the social and economic sustainability. In face of the criticality, the top leaders were showing a strong commitment to fixing the issues and willing to tolerate a slower but better quality growth. Driven by the anti-corruption campaign and leadership transition, a sluggish macroeconomic environment was seen in the first half of 2013 leading to a significant pullback for the equity market. Since then, a comprehensive and ambitious blueprint of reforms was instigated and announced, addressing a range of challenges being faced by the Chinese economy and eliminating the tail risk of hard landing. As a result, the market staged a recovery in the later part of the year, ending with a flattish return.

As the policy makers focused on reforms rather than growth, impacted by the frugality campaign and tight liquidity, China's GDP continued to slow down. It decelerated from 7.7 percent in the first quarter to 7.5 percent in the second and rebounded to 7.8 percent in the third quarter and is expected to achieve 7.7 percent for the full year, compared to 7.8 percent in 2012. Due to the campaign against corruption and weak consumer sentiment, a generally weak consumption was seen in many segments of the sector. Whereas, investment was stable supported by the continued railway development and better property construction.

In November, the Chinese Communist Party hosted its third plenary session, where the reform roadmap until 2020 was announced. The blueprint was both comprehensive and ambitious, addressing a wide range of bottlenecks being faced by the Chinese economy. Of particular interest were the decisions to allow the market to play a decisive role in resource allocation, diminish the role of the government, reform of fiscal budget of local governments, relaxation of hukou and one-child policies. A high level reform commission headed by President Xi was established signaling the commitment of the reform carry-through. The overall package will improve the financial health of the local governments, entrepreneurship, labor productivity, economic structure and social equality and therefore bodes well for the sustainability and the quality of the economy.

**Stock Market and Investment Policy**

HSZ China Fund posted a positive return in the reporting period. The best performers were the Macau gaming operator, Sands China, the internet search operator, Baidu Inc. and the leading white goods manufacturer, Qingdao Haier.

With the improvement on infrastructure in Macau, including the opening of Guangzhou-Zhuhai high-speed railway and the expansion of Gongbei immi-

gration facility, mass gaming revenue growth accelerated from 30 percent in 2012 to 37 percent in the third quarter of 2013. As the leading mass casino operator with the largest hotel room inventory, Sands China benefited most from the strong tourist growth in Macau. With the opening of Chimelong Ocean World in Hengqin soon and the re-designation of its VIP gaming tables into mass tables which carry higher margins, we believe Sands China will deliver another strong set of results in 2014.

Baidu strengthened its positioning in the mobile internet and built dominance in every important entry point. The company now has 14 apps with more than 100 million registered users, which includes mobile search, video, map, cloud, travel, app store, etc., fulfilling the diverse lifestyle needs of the Chinese smartphone users. Baidu introduced the concept of light apps in August and opened the light app platform to all developers in December. Given light apps allow instant uses without downloads and provide similar user experience with native apps, this will promote the use of low-frequency apps. The number of light apps increased from 58 in August to 726 in December, including large enterprises such as P&G and Coca-Cola. The strong ramp-up of its mobile applications will accelerate the monetization on mobile search advertisings, apps distribution and video, which will become an important growth driver in the future.

Qingdao Haier saw a strong performance on the back of the investment from KKR and Alibaba. In October, KKR acquired a 10 percent stake and formed a strategic partnership with the company. The strategic alliance will allow Haier to leverage on KKR's operational expertise, experienced local team and global resources to strengthen Haier's market leadership, grow its global platform and create value to all investors. Goodaymart Logistics, a subsidiary of Qingdao Haier, also formed a strategic partnership with Alibaba in December. We expect that the partnership will strengthen its leading position in the large-size item last-mile delivery and Goodaymart Logistics will become a preferred logistics services provider for Alibaba's Tmall online sales platform.

The fund performance was dragged by the ladies footwear retailer, Belle International, and the department store operator, Golden Eagle. Both companies suffered from the sluggish macro environment and the slowdown in consumer spending. Though the operating environment was challenging, they reported industry-leading and positive same store sales growth numbers which were much better than the sales declines of many peers. The management of Belle has recognized the importance of e-Commerce and its online sales platform, Yougou.com, has made a solid progress this year. Belle will integrate its inventory systems for distribution centers, physical stores and online platforms and we believe these initiatives will allow Belle to become

an important player in the e-Commerce and the Online-to-Offline segment in the future. The sales performance of Golden Eagle was impacted by the construction work of its flagship store at Xinjiekou, but the completion of Xinjiekou Block B will be an important growth driver for the company in the long term. Upon completion, Golden Eagle's Xinjiekou store will be one of the tallest landmarks and the first vertical shopping mall in Nanjing.

### **Outlook**

The macro backdrop is expected to be largely stable in 2014 on the back of better exports, slightly slower investment and stable consumption. Though we might not see significant growth acceleration, the reform implementation is likely to improve the economic structure, curtail the tail risk of hard landing and strengthen the sustainability of the economy. With the current depressed valuations, we are positive on Chinese equities in the year to come.

We expect a broad range of reforms to be carried out throughout the year of 2014. The general directions of the reforms are to provide a level-playing field between state-owned enterprises and private entrepreneurs, allow the market to play a decisive role in resources allocation and drive transition towards a consumption economy through hukou reform and "people-oriented" urbanization. We believe a more market-driven economy is generally favorable to our focus on privately controlled companies. We favor consumer companies with capabilities to provide unique offerings in view of the rising middle class households who are becoming more sophisticated and looking for memorable experience consumption. Mass gaming operators stands to benefit from this trend. Opening up drives innovation. Internet development will accelerate. We believe internet will reshape some of the industries in China. We like companies well positioned for the internet era. The focus of people orientated urbanization by the leadership will benefit quality healthcare companies, property developers catering for the first home buyers and upgraders and industrial companies providing components for the fast railway development in China.

\* The information stated relates to the period under review and is not indicative of future returns.

**Highlights**

<b>Key figures</b>		<b>31.12.2013</b>	<b>31.12.2012</b>	<b>31.12.2011</b>
<b>Consolidation</b>				
Total net assets in millions	USD	131.6	114.4	102.6
<b>Unit class USD</b>				
Review period	from	01.01.2013	01.01.2012	01.01.2011
	to	31.12.2013	31.12.2012	31.12.2011
Total net assets in millions	USD	97.2	80.9	74.9
Units in circulation		793 375.051	684 875.345	750 100.966
Net asset value per unit	USD	122.55	118.15	99.79
Distribution per unit	USD	1.60	0.00	1.40
<b>Unit class CHF</b>				
Review period	from	01.01.2013	01.01.2012	01.01.2011
	to	31.12.2013	31.12.2012	31.12.2011
Total net assets in millions	USD	34.0	33.3	27.6
Units in circulation		356 199.577	362 011.677	355 496.189
Net asset value per unit	CHF	84.96	92.03	73.01
Distribution per unit	CHF	1.00	0.00	0.80
<b>Unit class EUR</b>				
Review period	from	01.01.2013	01.01.2012	01.01.2011
	to	31.12.2013	31.12.2012	31.12.2011
Total net assets in millions	USD	0.4	0.2	0.2
Units in circulation		2 488.225	1 638.225	1 708.225
Net asset value per unit	EUR	114.39	151.84	99.28
Distribution per unit	EUR	1.80	0.00	1.20

**Annual distribution for 2013****1. For unitholders domiciled in Switzerland**

	<b>Unit class USD</b>	<b>Unit class CHF</b>	<b>Unit class EUR</b>
Gross	USD 1.600	CHF 1.000	EUR 1.800
Total from income	USD 1.600	CHF 1.000	EUR 1.800
Less 35% Swiss withholding tax	-USD 0.560	-CHF 0.350	-EUR 0.630
<b>Net distribution from capital gains</b>	<b>USD 1.040</b>	<b>CHF 0.650</b>	<b>EUR 1.170</b>

**2. For unitholders domiciled outside Switzerland (with affidavit)**

Gross	USD 1.600	CHF 1.000	EUR 1.800
<b>Net distribution from capital gains</b>	<b>USD 1.600</b>	<b>CHF 1.000</b>	<b>EUR 1.800</b>
<b>Coupon no.</b>	<b>3</b>	<b>3</b>	<b>3</b>

Payable on or after February 18, 2014 at CREDIT SUISSE AG, Zurich, and at their branch offices in Switzerland

**Depositaries**

Brown Brothers Harriman, New York
Credit Suisse AG, Zurich
Euroclear
Hongkong Shanghai Bank, Hong Kong

**Breakdown  
by sector and  
exchange  
rates**

<b>% of total assets</b>	<b>31.12.2013</b>
Banks and other financial institutions	7.73
Building materials and construction	4.14
Mining, coal and steel	1.66
Retail trade	5.86
Electronics and semiconductors	3.59
Finance, holding and miscellaneous companies	9.01
Forestry, paper and forest products	0.41
Hotel and catering industry, leisure facilities	16.11
Real estate	6.82
Internet, software and services	9.11
Consumer goods	1.02
Mechanical engineering and industrial equipment	9.65
Food and soft drinks	1.27
Pharmaceuticals, cosmetics and medical products	9.77
Textiles, apparel and leather goods	3.70
Insurance	7.96
<b>Total % of total assets</b>	<b>97.81</b>

<b>Exchange rates as at</b>	<b>31.12.2013</b>
Euro	1.376879
Hong Kong dollar	0.128966
Swiss franc	1.123469
US dollar	1.000000

**Assets as at  
December 31,  
2013**

	<b>31.12.2013</b>	<b>Consolidation 31.12.2012</b>
	<b>USD</b>	<b>USD</b>
<b>Assets</b>		
Bank deposits, including fiduciary investments with third-party banks, divided into:		
– Sight deposits	2 879 706.59	3 540 106.48
Securities, including securities loaned and pledged, divided into:		
– Shares and other equity instruments and rights	123 510 140.40	107 654 526.99
Derivative financial instruments	5 431 166.90	3 786 523.83
Other assets	6 436.99	0.00
<b>Total fund assets minus:</b>	<b>131 827 450.88</b>	<b>114 981 157.30</b>
Other liabilities	205 038.06	180 364.91
Due to banks	0.00	317 921.19
<b>Net assets</b>	<b>131 622 412.82</b>	<b>114 482 871.20</b>
<b>Number of units in circulation</b>	<b>1 152 062.853</b>	<b>1 048 525.247</b>

	<b>01.01.2013– 31.12.2013</b>	<b>Consolidation 01.01.2012– 31.12.2012</b>
	<b>USD</b>	<b>USD</b>
<b>Changes in net assets</b>		
Net assets at beginning of review period	114 482 871.20	102 636 699.62
Ordinary annual distribution / Delivery withholding tax	0.00	–1 357 474.84
Issue of units	26 074 326.70	12 312 151.72
Redemption of units	–13 305 183.81	–19 372 871.45
Other items from unit transactions	–458 957.66	626 342.11
Total income	4 829 356.39	19 638 024.04
<b>Net assets at end of review period</b>	<b>131 622 412.82</b>	<b>114 482 871.20</b>

<b>Changes in units in circulation</b>		
Number at beginning of the review period	1 048 525.247	1 107 305.380
Number of units issued	222 780.030	116 788.238
Number of units redeemed	–119 242.424	–175 568.371
<b>Net assets at end of review period</b>	<b>1 152 062.853</b>	<b>1 048 525.247</b>

**Net asset value per unit**
**Off-balance-sheet business**

	<b>31.12.2013</b>		<b>31.12.2012</b>	
	<b>Equivalent underlying value in fund currency Gross</b>	<b>As a % of net fund assets</b>	<b>Equivalent underlying value in fund currency Gross</b>	<b>As a % of net fund assets</b>
– Market risk (risk of change in share price)	5 431 166.90	4.13	3 786 523.83	3.31
<b>Total</b>	<b>5 431 166.90</b>	<b>4.13</b>	<b>3 786 523.83</b>	<b>3.31</b>
	<b>Net</b>		<b>Net</b>	
– Market risk (risk of change in share price)	5 431 166.90	4.13	3 786 523.83	3.31
<b>Total</b>	<b>5 431 166.90</b>	<b>4.13</b>	<b>3 786 523.83</b>	<b>3.31</b>

Unit class USD		Unit class CHF		Unit class EUR	
01.01.2013– 31.12.2013 USD	01.01.2012– 31.12.2012 USD	01.01.2013– 31.12.2013 USD	01.01.2012– 31.12.2012 USD	01.01.2013– 31.12.2013 USD	01.01.2012– 31.12.2012 USD
80 919 938.30	74 851 275.42	33 314 178.14	27 566 275.49	248 754.75	219 148.71
0.00	-1 043 869.35	0.00	-310 890.43	0.00	-2 715.06
23 563 936.38	9 920 507.82	1 911 701.26	2 332 091.90	598 689.06	59 552.00
-10 563 739.07	-17 544 318.11	-2 317 615.95	-1 765 062.30	-423 828.79	-63 491.04
-285 855.66	823 150.45	-125 291.90	-188 848.23	-47 810.10	-7 960.12
3 596 414.62	13 913 192.07	1 216 844.55	5 680 611.71	16 097.22	44 220.26
<b>97 230 694.57</b>	<b>80 919 938.30</b>	<b>33 999 816.10</b>	<b>33 314 178.14</b>	<b>391 902.14</b>	<b>248 754.75</b>
684 875.345	750 100.966	362 011.677	355 496.189	1 638.225	1 708.225
198 774.269	89 319.074	20 233.903	27 069.164	3 771.858	400.000
-90 274.563	-154 544.695	-26 046.003	-20 553.676	-2 921.858	-470.000
<b>793 375.051</b>	<b>684 875.345</b>	<b>356 199.577</b>	<b>362 011.677</b>	<b>2 488.225</b>	<b>1 638.225</b>
<b>(USD)</b>	<b>(USD)</b>	<b>(CHF)</b>	<b>(CHF)</b>	<b>(EUR)</b>	<b>(EUR)</b>
<b>122.55</b>	<b>118.15</b>	<b>84.96</b>	<b>92.03</b>	<b>114.39</b>	<b>151.84</b>

Statement of income from January 1, 2013 to December 31, 2013	Consolidation	
	01.01.2013– 31.12.2013 USD	01.01.2012– 31.12.2012 USD
<b>Income</b>		
Income from bank balances	9 357.94	321.12
Income from money market instruments	0.00	6 211.38
Securities income, divided into:		
– Shares and other equity instruments and rights, including bonus shares	2 813 747.89	2 311 756.03
Earnings from derivatives	89 311.53	2 966.66
Current net income paid in upon the issue of units	232 896.36	92 908.73
<b>Total income minus</b>	<b>3 145 313.72</b>	<b>2 414 163.92</b>
Interest due	4 138.60	805.04
Audit costs	24 060.23	20 606.09
Statutory remuneration to:		
– Management Company	1 890 066.88	1 621 620.66
– Custodian Bank	183 667.48	143 367.28
Partial transfer of expenditure on realized capital losses	–220 600.00	–179 060.18
Other expenses	13 433.85	9 611.07
Current net income paid out upon the redemption of units	176 443.56	99 402.15
<b>Net income</b>	<b>1 074 103.12</b>	<b>697 811.81</b>
Realized capital gains	7 758 444.86	6 173 663.16
Realized capital losses	–6 310 199.84	–4 666 527.89
Partial transfer of expenditure on realized capital losses	–220 600.00	–179 060.18
<b>Realized income</b>	<b>2 301 748.14</b>	<b>2 025 886.90</b>
Unrealized capital gains/losses	2 527 608.25	17 612 137.14
<b>Total income</b>	<b>4 829 356.39</b>	<b>19 638 024.04</b>
<b>Application of results</b>		
Net income of financial year	1 074 103.12	697 811.81
Carried forward from preceding year	893 042.10	195 230.29
<b>Net income available for distribution</b>	<b>1 967 145.22</b>	<b>893 042.10</b>
Net income earmarked for distribution to investors	1 674 514.41	0.00
Carried forward to following year	292 630.81	893 042.10

Unit class USD		Unit class CHF		Unit class EUR	
01.01.2013– 31.12.2013 USD	01.01.2012– 31.12.2012 USD	01.01.2013– 31.12.2013 USD	01.01.2012– 31.12.2012 USD	01.01.2013– 31.12.2013 USD	01.01.2012– 31.12.2012 USD
6 909.01	228.74	2 404.02	91.75	44.91	0.63
0.00	4 542.01	0.00	1 656.11	0.00	13.26
2 079 052.24	1 680 880.35	720 116.17	626 303.28	14 579.48	4 572.40
66 079.14	2 160.25	22 837.80	801.30	394.59	5.11
215 835.08	73 956.39	13 070.49	18 493.36	3 990.79	458.98
<b>2 367 875.47</b>	<b>1 761 767.74</b>	<b>758 428.48</b>	<b>647 345.80</b>	<b>19 009.77</b>	<b>5 050.38</b>
3 054.92	583.19	1 064.87	220.24	18.81	1.61
17 698.07	14 822.46	6 242.68	5 752.50	119.48	31.13
1 390 022.42	1 177 623.58	490 934.35	440 804.94	9 110.11	3 192.14
135 099.37	104 081.05	47 681.15	39 006.87	886.96	279.36
-162 000.00	-130 525.41	-57 500.00	-48 180.55	-1 100.00	-354.22
9 874.85	7 008.40	3 494.49	2 585.84	64.51	16.83
152 691.42	97 142.82	19 201.58	1 889.53	4 550.56	369.80
<b>821 434.42</b>	<b>491 031.65</b>	<b>247 309.36</b>	<b>205 266.43</b>	<b>5 359.34</b>	<b>1 513.73</b>
5 755 681.20	4 501 908.44	1 966 359.66	1 659 104.99	36 404.00	12 649.73
-4 685 858.70	-3 433 204.00	-1 592 248.87	-1 223 921.36	-32 092.27	-9 402.53
-162 000.00	-130 525.41	-57 500.00	-48 180.55	-1 100.00	-354.22
<b>1 729 256.92</b>	<b>1 429 210.68</b>	<b>563 920.15</b>	<b>592 269.51</b>	<b>8 571.07</b>	<b>4 406.71</b>
1 867 157.70	12 483 981.39	652 924.40	5 088 342.20	7 526.15	39 813.55
<b>3 596 414.62</b>	<b>13 913 192.07</b>	<b>1 216 844.55</b>	<b>5 680 611.71</b>	<b>16 097.22</b>	<b>44 220.26</b>
821 434.42	491 031.65	247 309.36	205 266.43	5 359.34	1 513.73
664 162.43	173 130.78	226 977.22	21 710.79	1 902.45	388.72
<b>1 485 596.85</b>	<b>664 162.43</b>	<b>474 286.58</b>	<b>226 977.22</b>	<b>7 261.79</b>	<b>1 902.45</b>
1 269 400.08	0.00	398 943.53	0.00	6 170.80	0.00
216 196.77	664 162.43	75 343.05	226 977.22	1 090.99	1 902.45

## Composition of portfolio, and changes in holdings

Description	31.12.2012 number/ nominal value	Purchases <sup>1</sup>	Disposals <sup>1</sup>	31.12.2013 number/ nominal values	Market value USD	% of total assets
<b>Securities traded on an exchange</b>						
<b>Rights</b>						
<b>Banks and other financial institutions</b>						
China Merchants Banks Co Ltd 13/13		789 463	789 463		0.00	0.00
<b>Total rights</b>					<b>0.00</b>	<b>0.00</b>
<b>Shares</b>						
<b>Banks and other financial institutions</b>						
China Merchants Bank Co. Ltd	3 555 649	2 096 963	868 000	4 784 612	10 193 735.79	7.73
					<b>10 193 735.79</b>	<b>7.73</b>
<b>Building materials and construction</b>						
Shimao Property Holdings Ltd	1 628 500	1 001 000	257 000	2 372 500	5 452 435.36	4.14
					<b>5 452 435.36</b>	<b>4.14</b>
<b>Mining, coal and steel</b>						
China Shenhua Energy Company Ltd	816 500	187 500	310 000	694 000	2 188 340.71	1.66
					<b>2 188 340.71</b>	<b>1.66</b>
<b>Retail trade</b>						
Chow Sang Sang Holdings International Ltd	1 628 000	764 000	1 603 000	789 000	2 248 774.36	1.71
Golden Eagle Retail Group Ltd	2 559 000	1 245 000	153 000	3 651 000	4 821 569.09	3.66
Oriental Watch Holdings Ltd	6 200 000	860 000	7 060 000			
SA SA Intl. Holdings Ltd	558 000			558 000	654 146.00	0.50
					<b>7 724 489.45</b>	<b>5.86</b>
<b>Electronics and semiconductors</b>						
AAC Technologies Holdings Inc	1 897 000	251 000	1 172 500	975 500	4 736 623.43	3.59
					<b>4 736 623.43</b>	<b>3.59</b>
<b>Finance, holding and miscellaneous companies</b>						
Daphne International Holdings Ltd	1 476 000		1 476 000			
The Wharf Holdings Ltd	883 014	188 000	228 000	843 014	6 447 124.92	4.89
					<b>6 447 124.92</b>	<b>4.89</b>
<b>Forestry, paper and forest products</b>						
Fook Woo Group Holdings Ltd	10 464 000		10 464 000			
Integrated Waste Solutions Group Hdq Ltd		10 464 000		10 464 000	539 801.80	0.41
					<b>539 801.80</b>	<b>0.41</b>
<b>Photography and optics</b>						
Sunny Optical Technology (Group) Co Ltd		372 000	372 000			
					<b>0.00</b>	<b>0.00</b>
<b>Hotel and catering industry, leisure facilities</b>						
Melco PBL Entert. (Macau) ADR		149 900		149 900	5 823 615.00	4.42
SHS SANDS CHINA LTD	1 186 800	726 800	490 400	1 423 200	11 627 575.26	8.82
Yum Brands Inc		50 600		50 600	3 790 952.00	2.88
					<b>21 242 142.26</b>	<b>16.11</b>
<b>Real estate</b>						
KWG Property Holding Ltd	5 715 500	4 300 500	344 000	9 672 000	5 363 661.33	4.07
Shui on Land Ltd	10 662 136	7 929 378	6 773 500	11 818 014	3 627 421.83	2.75
					<b>8 991 083.16</b>	<b>6.82</b>
<b>Internet, software and services</b>						
Baidu Inc ADR -A-	33 700	32 800	21 200	45 300	7 881 747.00	5.98
Tencent Holdings Ltd		64 700		64 700	4 127 005.02	3.13
					<b>12 008 752.02</b>	<b>9.11</b>
<b>Consumer goods</b>						
Ports Design Ltd.	2 605 000		872 000	1 733 000	1 340 992.71	1.02
Vinda International Holdings Ltd	3 593 000	389 000	3 982 000			
					<b>1 340 992.71</b>	<b>1.02</b>
<b>Mechanical engineering and industrial equipment</b>						
Dongfeng Motor Corp	1 580 000	370 000	816 000	1 134 000	1 775 449.59	1.35
Weichai Power Co Ltd	871 880	375 000	54 000	1 192 880	4 807 545.28	3.65
Zhuzhou CSR Times Electric Co. Ltd	1 638 000	458 000	391 000	1 705 000	6 134 867.56	4.65
					<b>12 717 862.43</b>	<b>9.65</b>
<b>Food and soft drinks</b>						
Shenguan Holdings (Group) Ltd	4 359 000	124 000	736 000	3 747 000	1 672 000.48	1.27
					<b>1 672 000.48</b>	<b>1.27</b>
<b>Pharmaceuticals, cosmetics and medical products</b>						
Hengan International Group Co Ltd	363 500	54 500	87 000	331 000	3 910 209.91	2.97
Mindray Medical International Ltd ADR -A-	142 594	35 200	3 900	173 894	6 310 613.26	4.79
Wuxi Pharmatech ADR Repr 8 Shs		70 100		70 100	2 663 800.00	2.02
					<b>12 884 623.17</b>	<b>9.77</b>
<b>Textiles, apparel and leather goods</b>						
Belle International Holdings Ltd	3 002 000	1 581 000	363 000	4 220 000	4 881 817.04	3.70
Trinity Ltd	2 478 000		2 478 000			
					<b>4 881 817.04</b>	<b>3.70</b>
<b>Insurance</b>						
Ping An Insurance Group Comp of China	905 000	266 000		1 171 000	10 488 315.67	7.96
					<b>10 488 315.67</b>	<b>7.96</b>
<b>Total shares</b>					<b>123 510 140.40</b>	<b>93.69</b>
<b>Total securities traded on an exchange</b>					<b>123 510 140.40</b>	<b>93.69</b>
<b>Securities without market</b>						
<b>Rights</b>						
					<b>0.00</b>	<b>0.00</b>
<b>Non-classified institutions</b>						
Shui On Land Ltd		4 647 878	4 647 878		<b>0.00</b>	<b>0.00</b>
					<b>0.00</b>	<b>0.00</b>
<b>Total rights</b>					<b>0.00</b>	<b>0.00</b>
<b>Total securities without market</b>					<b>0.00</b>	<b>0.00</b>

Description	31.12.2012 number/ nominal value	Purchases <sup>1</sup>	Disposals <sup>1</sup>	31.12.2013 number/ nominal values	Market value USD	% of total assets
<b>Other investments</b>						
<b>Call Warrants</b>						
<b>Finance, holding and miscellaneous companies</b>						
ML Intl & Co on Ping An Insurance Co Dec14	49 000	0	0	49 000	334 478.90	0.25
ML Intl & Co on Qingdao Haier Nov15	1 594 908	0	0	1 594 908	5 096 688.00	3.87
					<b>5 431 166.90</b>	<b>4.12</b>
<b>Total Call Warrants</b>					<b>5 431 166.90</b>	<b>4.12</b>
<b>Total other investments</b>					<b>5 431 166.90</b>	<b>4.12</b>
<b>Total investments</b>					<b>128 941 307.30</b>	<b>97.81</b>
Cash at banks					2 879 706.59	2.18
Other assets					6 436.99	0.00
<b>Total assets</b>					<b>131 827 450.88</b>	<b>100.00</b>
Other liabilities					-205 038.06	-0.16
<b>Net assets</b>					<b>131 622 412.82</b>	<b>99.84</b>

<sup>1</sup> Inclusive of purchases/sales and corporate actions

**List of sight and time deposits as at December 31, 2013**

Account management	Account type	Currency	Interest rate	Maturity	31.12.2013	31.12.2012	Change
Credit Suisse AG, Zurich	Current account	CHF	0.05	daily	185 967.91	19 005.25	166 962.66
Credit Suisse AG, Zurich	Current account	EUR	0.05	daily	71 173.24	34 317.00	36 856.24
Credit Suisse AG, Zurich	Current account	HKD	0.00	daily	16 423 292.75	26 866 726.67	-10 443 433.92
Credit Suisse AG, Zurich	Current account	USD	0.10	daily	454 727.34	-317 921.19	772 648.53

## Notes to the Annual Report as at December 31, 2013

### Note 1: Sales restrictions USA

Units of this collective investment scheme may not be offered, sold or delivered within the United States or its territories. Units of this collective investment scheme may not be offered, sold or delivered to citizens and/or residents of the United States of America and/or persons or entities whose income and/or revenue, irrespective of source, is subject to US income tax, including those deemed to be US persons under Regulation S of the US Securities Act of 1933 and/or the US Commodity Exchange Act, as amended.

### Note 2: Key figures and technical data

Fund	Unit class	Swiss securities number	Currency	Custodian bank fee	Management commission <sup>1</sup>	Total Expense Ratio (TER) <sup>2</sup>	Portfolio Turnover Rate (PTR) <sup>3</sup>
HSZ China Fund	USD	2 682 803	USD	0.15%	1.50%	1.67%	40.95%
HSZ China Fund	CHF	2 682 806	CHF	0.15%	1.50%	1.67%	40.95%
HSZ China Fund	EUR	2 682 809	EUR	0.15%	1.50%	1.67%	40.95%

<sup>1</sup> Information regarding the SFAMA guideline on transparent management fees: From the sales-related component of the management fee, the fund management is able to offer refunds to the following institutional investors which, in a business sense, hold fund units for third parties: Life insurance companies, Pension funds and other retirement benefits institutions, Investment foundations, Swiss fund management companies, Foreign fund management companies, Investment companies. The fund management may also draw on the sales-related component of the management fee to pay commission on fund unit holdings to the following fund distributors/distribution partners: authorized distributors, fund management companies, banks, brokers, Swiss Post, and insurance companies, distribution partners that place fund units exclusively with institutional investors that have a professional treasury, asset managers. The fund manager has not concluded any fee-sharing agreements or agreements with regard to retrocessions in the form of "soft commissions".

<sup>2</sup> TER (Total Expense Ratio) describes the sum of all periodic costs and commissions that are charged to the fund's assets. It is expressed retroactively as a percentage of average fund assets. Any reimbursements/commissions for client unit holdings from target funds have been credited to the fund and thus reduce the TER.

<sup>3</sup> The PTR (Portfolio Turnover Rate) is an indicator of the relevance of ancillary costs incurred by the Fund in the purchase and sale of investments, and denotes the portfolio turnover rate of the fund portfolio. The PTR shows how many transactions have been carried out on the assets of an investment fund or a security portfolio – mostly on the basis of an annual calculation.

### Note 3: Fund performance

Fund	Unit class	Inception date	Swiss securities number	Currency	01.01.2013–31.12.2013 <sup>1</sup>	2012 <sup>1</sup>	2011 <sup>1</sup>	2010 <sup>1</sup>
HSZ China Fund	USD	17.11.2006	2 682 803	USD	3.7%	19.9%	-26.0%	10.8%
HSZ China Fund	CHF	17.11.2006	2 682 806	CHF	1.1%	16.3%	-27.6%	-0.4%
HSZ China Fund	EUR	17.11.2006	2 682 809	EUR	-0.4%	17.0%	-23.7%	19.1%

<sup>1</sup> Fund performance is based on officially published net asset values which in turn are based on stock exchange closing prices at the end of the month in question.

Historical performance is no indicator of current or future performance. The performance data given does not take into account commissions and costs incurred in the purchase or redemption of fund units.

### Note 4: Valuation of the Fund's Assets and the Units

- The net asset value of the investment fund and the share of assets attributable to the individual classes are calculated in US dollar at the market value as of the end of the financial year and for each day on which units are issued or redeemed. The value of the fund's assets will not be calculated on days when the stock exchanges / markets in the fund's main investment countries are closed (e.g. bank and stock exchange holidays).
- Securities traded on a stock exchange or another regulated market open to the public shall be valued at the current prices paid on the main market. Other investments or investments for which no current market value is available shall be valued at the price which would probably be obtained in a diligent sale at the time of the valuation. In such cases, the fund management company shall use appropriate and recognized valuation models and principles to determine the market value.
- The value of money market instruments that are not traded on a stock exchange or another regulated market open to the public is determined as follows: The valuation price of such investments is successively adjusted in line with the repayment price, taking the net purchase price as the basis and ensuring that the investment returns calculated in this manner are kept constant. If there are significant changes in market conditions, the valuation principles for the individual investments will be adjusted in line with the new market returns. If there is no current market price in such instances, the calculations are as a rule based on the valuation of money market instruments with the same characteristics (quality and domicile of the issuer, issuing currency, term to maturity).
- Bank deposits are valued on the basis of the amount due plus accrued interest. If there are significant changes in market conditions or creditworthiness, the valuation principles for time deposits at banks will be adjusted in line with the new market returns.
- The net asset value of a unit of a given class is determined by the proportion of the fund's assets as valued at the market value attributable to the fund, minus any of the fund's liabilities that are attributed to the given unit class, divided by the number of units of the given class in circulation. In each case it is rounded to 1/100 of the accounting currency.

6. The share of the market value of the net assets (the fund's assets minus liabilities) attributable to the respective unit classes is determined for the first time at the initial issue of more than one class of units (if this occurs simultaneously) or the initial issue of a further unit class. The calculation is made on the basis of the assets accruing to the fund concerned for each unit class. The share is recalculated when one of the following events occurs:
- a) when units are issued and redeemed;
  - b) on the pertinent date for distributions, provided that (i) such distributions are only made for individual unit classes (distribution classes) or provided that (ii) the distributions of the various unit classes differ when expressed as a percentage of the respective net asset values, or provided that (iii) different commission or costs are charged on the distributions of the various unit classes when expressed as a percentage of the distribution;
  - c) when the net asset value is calculated, as part of the allocation of liabilities (including due or accrued costs and commissions) to the various unit classes, provided that the liabilities of the various unit classes are different when expressed as a percentage of the respective net asset value, especially if (i) different commission rates are applied for the various unit classes or if (ii) class-specific costs are charged;
  - d) when the net asset value is calculated, as part of the allocation of income or capital gains to the various unit classes, provided the income or capital gains stem from transactions made solely in the interests of one unit class or in the interests of several unit classes but disproportionately to their share of the net assets.

**Report of the  
audit company**

As collective investment scheme regulatory auditors, we have audited the financial statements of the investment fund

■ HSZ China Fund

which comprise the statement of net assets and the income statement, the statement of the appropriation of available earnings and the disclosure of the total costs as well as the supplemental disclosures in accordance with article 89 paragraph 1 lit. b–h of the Swiss Collective Investment Schemes Act (CISA) for the year ended December 31, 2013.

**Responsibility of the Fund Management  
Company’s Board of Directors**

The Board of Directors of the Fund Management Company is responsible for the preparation of the financial statements in accordance with the requirements of the Swiss Collective Investment Schemes Act, the related ordinances as well as the investment fund agreement and the prospectus with integrated fund contract. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors of the Fund Management Company is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

**Responsibility of the audit company for  
collective investment schemes**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected

depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity’s preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the existence and effectiveness of the entity’s internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements for the year ended December 31, 2013 comply with the Swiss Collective Investment Schemes Act, the related ordinances as well as the investment fund agreement and the prospectus with integrated fund contract.

**Report on other legal requirements**

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and article 127 CISA as well as on independence (article 11 AOA) and that there are no circumstances incompatible with our independence.

KPMG AG

Markus Schunk  
Licensed Audit Expert  
Auditor in Charge

Adrian Walder  
Licensed Audit Expert

Zurich, April 9, 2014

This report is an English translation of the original German version.  
In case of discrepancies the original version takes precedence.



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