

Newsletter August 2008

Figures as of August 31, 2008

Net Asset Value

Per Share: USD 87.14, CHF 76.48, EUR 75.66

Market Capitalization: USD 66.7 million

Share Price in USD since Nov 17, 2006



Performance

	August	YTD	1Y	Nov 17, 06
USD-Class	(7.35%)	(32.58%)	(34.27%)	(12.86%)
CHF-Class	(3.14%)	(34.39%)	(40.15%)	(23.52%)
EUR-Class	(2.10%)	(32.75%)	(39.03%)	(24.34%)

Largest Holdings

Epure International Ltd.	9.8%
China Merchants Bank	7.7%
China Infrastructure	6.4%
Fu Ji Food & Catering	5.4%
Shui On Land	5.1%
Zhongde Waste	4.0%

Exposure

Industrials	37.2%
Financials	18.3%
Consumer Discretionary	17.4%
Telecom Services	4.1%
Consumer Staples	3.3%
Energy	3.2%
Materials	0.3%
Cash	12.9%

- Post-Olympic transformation in China's economy
- FU JI Food announced strong full-year revenue
- Li Ning saw strong sales growth during the Olympics
- Epure secured contracts amounting to CNY 1 billion
- Zhuzhou CSR made a breakthrough in technology

The headline CPI inflation has continued to trend lower to 6.3 percent in July and is expected to see further moderation in the near term. Meanwhile, the PPI inflation has edged up to 10.0 percent. Labor intensive, low value-added exporters are facing intense headwinds with rising input costs and weakening global demand. On the other hand, domestic demand remains resilient, with retail sales growth accelerated to 23.3 percent and fixed asset investment to 26.3 percent. With the spectacular Olympics concluded in Beijing, policymakers are expected to refocus on pursuing an accommodative policy to sustain a harmonious society and a smooth transition towards a domestic-oriented economy.

FU JI Food fiscal year 2008 sales momentum was above market expectations, up 59.7 percent against fiscal year 2007. The new high in turnover was attributed to stronger catering trend and fast-growing theme restaurant business. Despite this, operating margin stayed flattish due to higher depreciation charges for the newly acquired theme restaurants. We believe FU JI would continue to benefit from the synergies of the theme restaurant business and rising catering outsourcing trend in China, along with expansion into institutional catering segments including railway, highway and tourism.

Li Ning reported first half net profit jumped 68.3 percent to CNY 333 million, on strong same-store sales growth and rapid store expansion. Gross margin remained steady, while operating margin saw some decent leverage. The group has made significant expansion in second and third tier cities over the period. During the Olympics, same-store sales growth was impressively strong, especially in the Olympics host cities. Management plans to expand to 10'000 outlets, from the current 6'393 by 2013.

Epure reported strong results for the June quarter, 2008 with revenue increased by 86 percent to CNY 240 million. Net profit increased by 56 percent year-on-year to CNY 52.1 million. Gross margin was stable at 32.2 percent despite the rising input cost and intensifying competition environment. Order book stands at approximately CNY 1 billion. We believe Epure remains the best beneficiary of the booming wastewater industry, given its leading position and proven technological know-how.

Zhuzhou CSR reported net profit growth of 19.4 percent for the first half of 2008. Revenue was up by 41 percent, thanks to the strong demand for railway vehicles in China. The company has more than CNY 3 billion orders and the order flow is expected to be strong in the next 2-3 years. The recent order wins for AC power converters demonstrated a significant breakthrough in its technological development.

General Information

Characteristics

Fund Name	HSZ China Fund
Structure	Open-end Swiss investment fund, "Kategorie: Übrige Fonds"
Approved	August 2006 by Federal Banking Commission (EBK)
Launch	November 2006
Fund Volume	Launched at USD 130 million
Fiscal Year End	December 31
Reporting	Semi-annually in USD
Currency Classes	USD, CHF, EUR (all unhedged)
ISIN, Valor USD-Class, WKN	CH0026828035, 2682803, A0LC13
ISIN, Valor EUR-Class, WKN	CH0026828092, 2682809, A0LC14
ISIN, Valor CHF-Class, WKN	CH0026828068, 2682806, A0LC15
Issue price (all classes)	100
Distributions	Income annually
Issuance/Redemption	Daily
Management Fee	1.5% annually
Performance Fee	10% above hurdle rate of 5%, high water mark
Issuance Fee	Maximum 5%
Redemption Fee	None

Information

Prospectus/By-Laws	Available upon request
Publication of NAV (daily)	www.hszgroup.com www.aigprivatebank.com Neue Zürcher Zeitung (NZZ)
Bloomberg	HSZCHF, HSZCHEUR, HSZCFCHF
Monthly Reports	Subscription
Fund Administrator	AIG Fondsleitung (Schweiz) AG
Custodian Bank	AIG Private Bank AG
Investment Manager	HSZ Group
Main Distributor	HSZ (Schweiz) AG
Auditors	PricewaterhouseCoopers AG
Subscriptions	All Banks HSZ (Schweiz) AG

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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 Group 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 by investing in at least 15 companies. Each position represents a weight of between 5 to 10% of total assets with 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 Group is an independent investment management company with offices in Hong Kong and Zurich. The company is majority owned by its partners and employs a total staff of thirteen. The team has managed Asian equity portfolios since 1994. HSZ Group acts as a bridge for European capital invested in Asia and has a long-standing experience in serving institutional and private clients in Europe.