

Newsletter December 2008

- Trade figures turn into negative territory
- Shui On Land and Shimao Property benefit from new property measures
- Golden Eagle injection concerns removed
- Fu Ji Food aims to focus on cash flow

Figures as of December 31, 2008

Net Asset Value

Per Share: USD 56.53, CHF 47.85, EUR 51.69
Market Capitalization: USD 40.8 million

Share Price in USD since Nov 17, 2006



Performance

	November	YTD	1Y	Nov 17, 06
USD-Class	13.06%	(56.26%)	(56.26%)	(43.47%)
CHF-Class	(0.60%)	(58.95%)	(58.95%)	(52.15%)
EUR-Class	4.28%	(54.06%)	(54.06%)	(48.31%)

Largest Holdings

Lonking Holdings Ltd	7.03%
China Merchants Bank	6.59%
Epure International Ltd	6.50%
Zhuzhou CSR	6.45%
Anta Sports Products Ltd	5.27%
Golden Eagle Retail Group	4.07%

Exposure

Industrials	40.0%
Consumer Discretionary	23.5%
Financials	17.2%
Consumer Staples	3.9%
Energy	3.1%
Cash	12.3%

In November, both imports and exports of China fell into negative territory. Exports declined by 2.2 percent from a year ago, compared to a 19.2 percent increase in October. Imports growth also slipped sharply to a negative 17.9 percent, down from a positive 15.6 percent in October. Growth in fixed asset investment (FAI) came in at 26.8 percent year-on-year in the January to November period, weakening marginally from 27.2 percent in the first ten months. While real estate FAI saw some moderation, FAI in infrastructure remained resilient and is set to play a bigger role in the months forward. Growth is expected to weaken further in the near term before the recently announced massive stimulus measures and easy monetary policies take hold on the economy.

Chinese Government issued several new measures on December 17, 2008 to support home purchases following aggressive rate cuts and a series of supporting policies. New measures include reducing or waiving sales tax for a year for secondary transactions; supporting funding needs of smaller-unit homebuilders; merger & acquisition funding for reputable developers; removing urban real estate tax and continuing to fulfill housing needs for economic housing units in the urban and rural areas over the next 3 years. These measures are believed to drive the momentum of the property market. Large developers like Shui On Land and Shimao Property would likely benefit from the new policies.

Golden Eagle announced to terminate the proposed acquisition of the Shanghai store property from its parent without any penalties on December 12, 2008. The announcement is taken as positive because the deal would remove concerns on balance sheet weakening due to the capital outlay for the acquisition. The company is now negotiating to lease the store from the parent instead. Leasing gives better protection to downside risk of the operation. The management expects the breakeven period of the store to be 1 year given the good location and quality brand mix.

Fu Ji Food's revenue rose by 10.9 percent quarter-on-quarter in the third quarter in 2008 and operating margin increased from 27.8 percent to 29.8 percent. While the catering segment has seen some selling price pressure from its manufacturing clients, operating margin improved on easing cost pressure on food, labour and fuel. Meanwhile, the management is committed to controlling its capital expenditure and preserving as much cash as possible to repay its convertible bonds due November 2009 and October 2010 through decelerating capacity expansion.

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	HSZCHFID, 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.