HSZ China Fund

Newsletter June 2008

- China raises energy prices
- Epure clinches new contract
- Zhongde Waste reports strong first quarter result
- Ports Design retail sales remains strong
- China Merchant Bank acquires Wing Lung

Figures as of June 30, 2008

Net Asset Value

Per Share: USD 92.47, CHF 75.41, EUR 74.96

Market Capitalization: USD 72.72 million

Share Price in USD since Nov 17, 2006

Performance

	June	YTD	1Y	Nov 17, 06
USD-Class	(10.00%)	(28.46%)	(32.40%)	(7.50%)
CHF-Class	(12.60%)	(35.30%)	(44.20%)	(24.60%)
EUR-Class	(11.40%)	(33.37%)	(42.47%)	(25.00%)

Largest Holdings

Epure International Ltd.	10.3%
China Merchants Bank	8.2%
Fu Ji Food & Catering	7.6%
China Infrastructure	6.2%
Shui On Land	5.1%
Pico Far East	4.0%

Exposure

Industrials	38%
Financials	18%
Consumer Discretionary	13%
Consumer Staples	11%
Telecom Services	4%
Cash	11%

China raised gasoline and diesel prices by about 18 percent and power tariffs for industrial and commercial users by about 5 percent. This policy shift from anti-inflationary to adequate energy supply indicates that the government wants to address the energy shortage problem. In the month of June, the fund sold out on its holdings in China Resources Land as the uncertain property demand conditions in Chengdu due to the earthquake in Sichuan may lead to analysts' downgrades for the stock. We also sold out on Xinyi Glass as it will face rising costs from the increase in energy prices recently announced. The fund lost 1.5 percent against a loss of 5.5 percent of MSCI-China.

Epure International Ltd announced that its wholly owned subsidiary has secured its first wastewater treatment project using the Design, Build and Operate (DBO) model amounting to approximately CNY 360 million. Under the DBO model, Epure could benefit from cost saving due to design innovation and construction acceleration. Less capital is also committed as compared with the Build, Operate and Transfer (BOT) project. Taking the contract into account, the order book stands at approximately CNY 1.16 billion, part of which is expected to contribute to the 2008 revenue and earnings. We expect Epure to continue to be a key beneficiary of the substantial governmental budget on China's waste-water treatment sector.

Zhongde Waste Technology reported a 71 percent year-on-year growth in net profit to EUR 7.0 million for the first quarter in 2008. Revenue was up 52 percent to EUR 11.2 million, driven by its strong growth in municipal incinerator sales. Gross margin improved from 65 percent to 69 percent as the company focuses on bigger municipal projects. Being one of the leading players in the growing waste incineration market, Zhongde is expected to register strong growth in earnings going forward.

Ports Design announced that same store sales grew 30 percent in May despite the effect of the Sichuan earthquake. This is driven by stable average selling price growth and better margins. Coupled with the 36 percent same store sales growth achieved from January to April and May's 30 percent growth, management's full year guidance of 20 percent same store sales growth is considered highly achievable.

China Merchants Bank (CMB) announced it will buy a 53 percent stake in the Hong Kong-listed bank, Wing Lung Bank, in a deal valued at USD 2.47 billion. The acquisition of the controlling share will enable CMB to establish a presence in Hong Kong leveraging on Wing Lung Bank's network. Wing Lung Bank has licenses for securities, futures, insurance, trust and asset-management business in Hong Kong. The move is in line with part of CMB's long term strategy of becoming an international bank.

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	HSZCHIFD, 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.