HSZ China Fund

Newsletter May 2008

- China stockmarkets hurt by earthquake impact
- Parkson announces acquisition of stores
- Ping An suspends plan to sell A-shares
- Qingdao Haier benefits from strong domestic spending
- Daqin Railway profit grows 32 percent

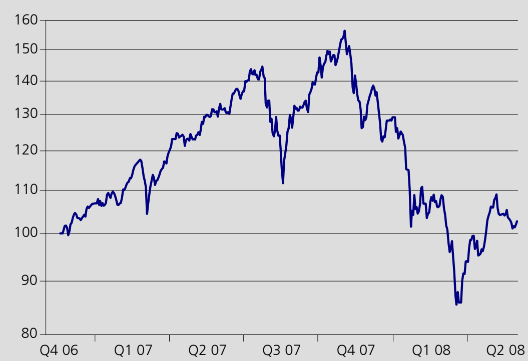
Figures as of May 31, 2008

Net Asset Value

Per Share: USD 102.74, CHF 86.27, EUR 84.68

Market Capitalization: USD 88.93 million

Share Price in USD since Nov 17, 2006



Performance

	May	YTD	1Y	Nov 17, 06
USD-Class	(3.0%)	(20.5%)	(22.1%)	2.7%
CHF-Class	(1.8%)	(26.0%)	(33.4%)	(13.7%)
EUR-Class	(2.6%)	(24.4%)	(32.6%)	(15.3%)

Largest Holdings

Epure International Ltd.	9.6%
China Merchants Bank	7.7%
China Infrastructure	7.2%
Fu Ji Food & Catering	5.7%
Shui On Land	5.1%
Pico Far East	3.7%

Exposure

Industrials	39%
Financials	18%
Consumer Discretionary	14%
Consumer Staples	5%
Telecom Services	4%
Energy	3%
Materials	2%
Cash	13%

China's April CPI was up 8.5 percent year-on-year as food price remains strong and money supply growth accelerated to 16.9 percent year-on-year. The Chinese government's focus this month was on the earthquake in Sichuan which caused significant damage to people, buildings and infrastructure. This will have negative impact on economic activity in Sichuan in the short term. Property stocks bore the brunt of the sell-down as investors worry over the effect of companies with property projects in the affected area. We have been in contact with the property companies and the situation is being monitored to assess potential impact to demand. However, demand in first tier cities such as Beijing and Shanghai remain resilient. The fund has increased its weightings in "A" shares in the sell down as valuations reached reasonable levels and earnings delivery in Daqin Railway and white goods manufacturer, Qingdao Haier is strong. For the month of May, HSZ China Fund lost 3 percent against MSCI-China of -5.4 percent.

Parkson reported strong results for the first quarter ended Mar 31, 2008. Net profit rose by 40 percent year-on-year to CNY 225 million, and net margins improved to 23 percent driven by operating leverage, better cost control, and lower effective tax rate. The group announced acquisition of two managed stores from its parent which are earnings accretive.

Ping An Insurance announced that they will not proceed with the plan to sell a large number of new Shanghai-listed shares within the next six months in response to the volatile market. Its initial plans to sell up to 1.2 billion new A-shares to supplement its capital base, had triggered a sell-off in the A-share market. The removal of this overhang led to short-term relief for the stock.

The fund initiated a position in Qingdao Haier, China's white goods giant, specializing in manufacturing, distributing and sales of refrigerators, air-conditioners and other small household electrical appliances. The company is expected to benefit from strong demand from rising housing ownership in China. Qingdao Haier has a dominant market position in the refrigerator segment and has recently won the bid to become the authorized refrigerator provider to the government's recently announced rural subsidy programme. With earnings growth of over 25 percent on low teens valuations benefiting from growth in consumer demand, we believe the company is an attractive investment.

Daqin Railway reported a 22 percent growth in revenue to CNY 5'507 million, driven by a strong 19 percent growth in its total coal transport demand. Net margin increased by 2.6 percentage points to 38 percent on lower maintenance and repair expense and better control of operating expense. Management guided that due to the surge in energy demand from the prosperous costal regions and the need to ease transportation bottlenecks, capital will be spent on procurement of locomotives and rail cars in the next few years.

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

Contact

HSZ Group

Rm. 605A, Tower 2
Lippo Centre
Admiralty
Hong Kong
Tel: +852 2287 2300
Fax: +852 2287 2380
E-mail: mail@hszgroup.com

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.