HSZ China Fund

Newsletter September 2008

- PBOC cut benchmark lending rates and RRR
- Anta Sports in a strong position to capture rising demand
- Zhongde Waste partners with Veolia
- Lonking saw strong new business growth
- Ecogreen expands high-value products in food & brewery

The People's Bank of China (PBOC) announced a cut in the benchmark lending rates and the required reserve ratio (RRR) while keeping the benchmark deposit rates unchanged. The move was the first time since 2002 and provides relief to exports-oriented SMEs, developers and the economy as a whole. This also demonstrates policymakers' readiness to manage downside risks and support the economy. With a close-to-balance fiscal budget, a low government debt-to-GDP ratio, a large current account surplus and huge foreign exchange reserve, China's fiscal status is in a good shape to sustain economic growth.

The fund initiated a position in Anta Sports Products, the second largest domestic sportswear brand in China with a market share of 7 percent in 2008. Anta reported first half turnover jumped 50 percent year-on-year to CNY 2.2 billion, driven by increases in both volume and average selling prices. Net profit margin increased by 5.7 percent points despite an increase in advertisement and promotion expenses during the Olympics. With strong same-store sales growth, effective promotion activities, and its leading presence in the fast-growing 2nd and 3rd tier cities, we believe the company is an attractive investment.

Zhongde Waste saw a strong growth in net profit of 39 percent year-on-year for the first half of 2008. Revenue rose by 34 percent with gross margin remaining stable at 67 percent. Order intake for the period was EUR 43.8 million, up by 131 percent as compared to last year. Zhongde also signed a cooperation agreement with Veolia Environment, a world leader in environmental services, which re-confirms Zhongde's leading position in waste incineration market in China.

Lonking Holdings, formerly called China Infrastructure Machinery, delivered a strong first half result with revenue up by 41 percent to CNY 4.0 billion and net profit by 24 percent to 470 million. It sold 18,839 units of wheel loader during the period and remains as the leader with 18 percent share in the domestic market. Revenue contribution from its new products rose to 14 percent of the total revenue from 7 percent last year. Longking also saw a strong growth from its export sales of 966 wheel loaders, given its competitive pricing and proven product performance.

Ecogreen Fine Chemicals announced solid first half results with turnover increased 20 percent year-on-year to CNY 346 million. Higher average selling prices partially offset the pressure of rising costs and fluctuations in Renminbi exchange rate. As a result, margins stayed flattish. Expansion work for Phase III of the Haicang Plant has been completed in the first half of the year. Haicang Phase III and Xinglin Plant are gradually scaling up and the management expects the commencement of the brand new food flavour chemicals product line to deliver strong earnings growth in the next few years.

Figures as of September 30, 2008

Net Asset Value

Per Share: USD 65.69, CHF 57.71, EUR 58.58

Market Capitalization: USD 48.8 million

Share Price in USD since Nov 17, 2006

Performance

	September	YTD	1Y	Nov 17, 06
USD-Class	(24.62%)	(49.18%)	(53.96%)	(34.31%)
CHF-Class	(24.54%)	(50.49%)	(56.97%)	(42.29%)
EUR-Class	(22.57%)	(47.93%)	(54.61%)	(41.42%)

Largest Holdings

Epure International Ltd.	8.0%
China Merchants Bank	7.2%
Lonking Holdings Ltd.	7.2%
Fu Ji Food & Catering	5.3%
Shui On Land	3.8%
Zhuzhou CSR	3.4%

Exposure

Industrials	36.3%
Financials	15.5%
Consumer Discretionary	14.5%
Consumer Staples	7.9%
Telecom Services	3.9%
Energy	3.0%
Cash	18.8%

General Information

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.

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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