

## Newsletter December 2007

- Reserve requirement ratio raised
- Fu Ji Food & Catering's turnover increases 46%
- Ping An becomes Fortis biggest investor
- China Everbright Bank plans to go public in mid 2008
- China Resources Land buy land from parent

The People's Bank of China raised reserve requirement ratio by 100 basis points to 14.5% as inflationary pressure accelerates. November CPI rose to a high of 6.9% led mainly by food price inflation. This interest rate move will reduce the banks' ability to aggressively engage in lending activities. Banking and property stocks bore the brunt of the selling in December. Due to the recent tightening measure, property prices started to soften, and some developers postponed their projects for sale. HSZ China Fund is invested in property developers whose gearing levels are low and whose landbank is nationwide. The fund sold its holdings in retailer Li Ning in early December as it had traded to high valuations. We remain positive on the property sector in the long term given the demographic dynamics and the strong wage growth.

During the 6 months ended September 30, 2007, Fu Ji Food & Catering's turnover was up 46% year-on-year to CNY 780 million and net profit was up 14% to CNY 197 million. The operating margin was down 5 percentage points year-on-year to 32% on higher rental, depreciation and staff expenses. As of September 30, 2007, Fu Ji produced a total of 657'000 sets of meals daily, representing 42.1% growth compared to the same period last year. Although results were at the low end of expectations, we remain positive on the long-term growth potential of the company.

Ping An announced that it acquired 95.01 million shares of Fortis for CNY 20 billion, valuing Fortis at 1.1x 2008E P/B, 7.9x PE and 4.6% yield. The transaction gives Fortis the possibility of strategic partnership in China focusing on asset management or on private banking services. It leverages on Ping An's distribution network and Fortis insurer expertise. Ping An is expected to benefit from the investment as the demand for fund products increase arising from the growing wealth of the middle class in China.

China Everbright Limited announced plans to list its associate holding, China Everbright Bank, after receiving CNY 20 billion capital injection from Huijin, the investment arm of the Central Government of China. China Everbright Bank is currently undertaking restructuring, seeking strategic investors and dealing with non-performing loans to pave the way for its listing in mid-2008. This will be positive for China Everbright Limited as value is realized on the bank's listing.

China Resources Land announced the acquisition of three projects in Dalian, Hangzhou and Wuxi with total Gross Floor Area (GFA) of 2.89 million square meters from its parent. The acquisition will be entirely funded through the issuance of shares amounting to HKD 4.53 billion. This is the third asset injection to China Resources Land since 2005. The stock is trading at an attractive 30% discount to NAV.

Figures as of December 31, 2007

### Net Asset Value

Per Share: USD 129.25, CHF 116.56, EUR 112.51  
Market Capitalization: USD 166.6 million

### Share Price in USD since Nov 17, 2006



### Performance

	Dec	YTD	1Y	Nov 17, 06
USD-Class	(3.7%)	21.0%	21.0%	29.3%
CHF-Class	(3.2%)	11.5%	11.5%	16.6%
EUR-Class	(3.4%)	8.3%	8.3%	12.5%

### Largest Holdings

China Merchants Bank	8.3%
Epure International	6.5%
Fu Ji Food & Catering	5.8%
China Infrastructure	5.7%
Shui On Land	4.1%
Bank of East Asia	4.1%

### Exposure

Industrials	31.3%
Financials	26.2%
Consumer Discretionary	17.9%
Consumer Staples	6.3%
Utilities	2.4%
Telecom Services	2.4%
Energy	2.2%
Materials	2.1%
Information Technology	1.7%
Cash	7.5%

# 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%

## Information

Prospectus/By-Laws	Available upon request
Publication of NAV (daily)	<a href="http://www.hszgroup.com">www.hszgroup.com</a> <a href="http://www.aigprivatebank.com">www.aigprivatebank.com</a> 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 (Schweiz) AG	Boersenstrasse 26 8001 Zurich Switzerland Tel: +41 44 288 95 95 Fax: +41 44 288 95 96 E-mail: <a href="mailto:mail@hszgroup.com">mail@hszgroup.com</a>
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HSZ (Hong Kong) Ltd. Tel: +852 2287 23 00

## 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 fourteen. 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.

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