HSZ China Fund

Newsletter February 2008

- Snowstorms hit China
- Property measures taking effect
- Ping An's placement posts short term uncertainty
- Parkson's profit grew 47%
- Epure saw strong profit growth in 2007

Figures as of February 29, 2008

Net Asset Value

Per Share: USD 108.39, CHF 91.23, EUR 91.37
Market Capitalization: USD 125.0 million

Share Price in USD since Nov 17, 2006

Performance

	Feb	YTD	1Y	Nov 17, 06
USD-Class	3.3%	(16.1%)	(4.4%)	8.4%
CHF-Class	0.4%	(21.7%)	(17.7%)	(8.8%)
EUR-Class	1.3%	(18.8%)	(16.8%)	(8.6%)

Largest Holdings

China Merchants Bank	8.1%
China Infrastructure	7.7%
Epure International	7.7%
Fu Ji Food & Catering	6.0%
Shui On Land	4.1%
Esprit	3.8%

Exposure

Industrials	30.4%
Financials	22.3%
Consumer Discretionary	18.0%
Consumer Staples	7.3%
Energy	2.6%
Telecom Services	2.5%
Materials	2.0%
Information Technology	0.7%
Cash	14.2%

Inflationary pressures continue to edge up in January. CPI registered 7.1%, up 6.5% from December 2007. It is expected that the severe snowstorms will affect February CPI numbers as food supply may be damaged and prices continue to rise.

The tight monetary policy and measures against property speculation seem to be taking their effects with a local Shanghai consultant revealing that residential prices fell by 2.5% on average in January. China Vanke, one of the largest residential developer based in Shenzhen, saw a 36% decline in sales (month-on-month basis), partly due to the festive Chinese New Year activities in January. On a year-on-year basis, sales were up 11%. Nevertheless, Vanke offered 5% discounts to local home buyers on 10 of its projects. Attracted by the discounts, 70% of the units launched were reported to be sold within eight hours, indicating the strong underlying demand for housing. We maintain that the tightening measures are aimed at stifling speculative demand whereas real demand remains strong.

Ping An's plans to raise CNY 120 billion by offering new shares and convertible bonds aroused immense controversy among the mainland investors and triggered a significant sell-off in the A-share market. The pending placement posted a short-term uncertainty over the company but the long-term outlook remains positive. Though the management has not given a detailed plan on the use of proceeds, we believe they will be used mainly for domestic M&A consistent with its long term three-pillar strategy in insurance, banking and asset management.

Parkson reported strong results for the year ended December 31, 2007, with net profit up 46.7% year-on-year to CNY 676 million, operating profit up 43.6% to CNY 1'017 million and operating revenue up 40.1% to CNY 3'060 million, in line with market expectations. Concessionaire sales expanded 48.8%, while direct sales rose 37.7%. Management maintained its positive outlook, expecting growth momentum to be sustained in the year 2008 on the back of stable same store growth, new stores opening and continued acquisition of minority interests and third party stores.

Epure International reported a 49% year-on-year growth in net profit to CNY 164.4 million for the financial year in 2007, above market's expectations. Revenue was up 38% to CNY 697.3 million, driven by its strong engineering business. Gross margin was stable at 32%, compared with 31.9% last year despite rising competition, due to Epure's better cost management and consistent focus on bigger municipal projects and higher margin industrial projects. We expect Epure to be a key beneficiary of the opportunities offered by the China's waste-water treatment sector.

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)	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.