

Newsletter January 2008

- More tightening measures introduced
- Property prices softening
- News flow on restructuring of Telecom Industry
- Price controls may not affect China Mengniu's business
- Pico reported a 7.6% growth in net profit for the year

The People's Bank of China decided to raise the required reserve ratio 50 basis points to 15% to curb accelerating loan growth. At the same time, Premier Wen Jiabao announced that China would freeze energy prices in the near term to manage inflationary pressures. Coupled with the weakness of global equity markets, MSCI China fell by 21.6% in the month of January. The fund reduced its positions in banking stocks in the light of potentially increasing loan provisions. The positions of Bank of East China and China Construction Bank were sold off. The fund took the opportunity in the volatility to increase positions in the consumer sector, initiating a position in Parkson Retail Group, an operator of nationwide department stores.

With the tightening measures introduced, the property sector saw a fall in transaction volume for three consecutive months particularly in cities where prices have risen significantly such as Shenzhen and Guangzhou. The fund is invested in nationwide developers which own quality land and have low gearing levels. These companies will benefit from the fall in land prices expanding their landbank.

According to news reports citing unidentified sources the state council has finalized its decision on how to restructure the telecommunication sector in China. The reported plan included the merger of existing telecommunication providers while timing remains sketchy. We think exposure to the telecom equipment sector such as our holdings in Comba Telecom will remain favorable on expectation of continued growth in capex spending and a possible boost due to potential sector restructuring.

The National Development and Reform Commission announced a temporary plan to stabilize consumer prices in China on January 15. The purpose of this new regulation is to avoid unreasonable price increases by the producers. We expect this new rule to have limited financial impact on China Mengniu given that the company has already raised its product price recently and that the government still allows reasonable price increases.

Pico reported a net profit of HKD 145.5 million for the year ended October 31, 2007, up 7.6% year-on-year. During the period, turnover grew 19% to HKD 2'149 million, driven by growth in the exhibition and event marketing services segment and the museums, theme parks and interior fit-out segment. The results were below market's expectation due to projects delays, a 20% increase in labor costs due to work force expansion to prepare for the mega projects of this year and the appreciation of SGD in the second half of 2007. Pico has contracts on hand of HKD 500 to 600 million to be booked in this financial year, including about HKD 100 million for the Olympic related projects. The company expects to secure more Olympic related projects in this financial year and see improvement in profit margins due to better margin of the mega projects.

Figures as of January 31, 2008

Net Asset Value

Per Share: USD 104.96, CHF 90.86, EUR 90.16
Market Capitalization: USD 129.9 million

Share Price in USD since Nov 17, 2006



Performance

	Jan	YTD	1Y	Nov 17, 06
USD-Class	(18.8%)	(18.8%)	(1.8%)	5.0%
CHF-Class	(22.0%)	(22.0%)	(15.4%)	(9.1%)
EUR-Class	(19.9%)	(19.9%)	(14.6%)	(9.8%)

Largest Holdings

China Merchants Bank	7.6%
China Infrastructure	6.7%
Epure International	6.3%
Fu Ji Food & Catering	5.5%
Shui On Land	4.4%
Esprit	4.2%

Exposure

Industrials	28.2%
Financials	20.6%
Consumer Discretionary	18.1%
Consumer Staples	7.3%
Telecom Services	2.5%
Energy	2.4%
Materials	2.3%
Information Technology	0.8%
Cash	17.8%

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 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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