

## Newsletter March 2009

- China's PMI sees further improvement
- Epure sustains steady growth in 2009
- Anta delivers strong full year results
- Yurun emphasizes on cost saving

Figures as of March 31, 2009

### Net Asset Value

Per Share: USD 62.24, CHF 57.30, EUR 60.27  
Market Capitalization: USD 43.9 million

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



### Performance

|           | March  | YTD    | 1Y       | Nov 17, 06 |
|-----------|--------|--------|----------|------------|
| USD-Class | 17.97% | 10.10% | (33.83%) | (37.76%)   |
| CHF-Class | 16.18% | 19.75% | (23.81%) | (42.70%)   |
| EUR-Class | 13.72% | 16.60% | (21.12%) | (39.73%)   |

### Largest Holdings

|                          |      |
|--------------------------|------|
| China Merchants Bank     | 7.0% |
| Lonking Holdings Ltd     | 6.8% |
| Epure International Ltd  | 6.2% |
| Zhuzhou CSR              | 6.2% |
| Shui On Land             | 5.5% |
| Anta Sports Products Ltd | 5.0% |

### Exposure

|                        |       |
|------------------------|-------|
| Industrials            | 36.1% |
| Consumer Discretionary | 23.2% |
| Financials             | 20.9% |
| Consumer Staples       | 5.8%  |
| Energy                 | 4.0%  |
| Cash                   | 10.0% |

China's official purchasing managers index (PMI) rebounded to 49.0 in February from 45.3 in January. Although it was still below the expansionary reading of 50, improvements have been seen across the board among the PMI components. The reading is suggesting that manufacturing activities are getting back closer to the expansionary territory and producers started to re-stock inventories to prepare for the rise in the end-demand from the government-led stimulus package. For the first quarter of 2009, HSZ China Fund gained 10 percent in USD while MSCI China index was up by 1 percent.

Epure's net profit for the year 2008 came in at CNY 232 million, increased by 40 percent year-on-year. Its revenue reached 1'024 million compared to 697 million in the previous year. The gross profit margin saw slight improvement by 1 percentage point to 33 percent. Order book stood at CNY 800 million at the end of 2008. With its healthy net cash position of 750 million, Epure is set to benefit from the government stimulus package where CNY 20 billion is earmarked for water and water-related investments.

Anta's 2008 turnover grew 55 percent year-on-year to CNY 4'627 million due to increases in both volume and average selling prices. With average unit costs for footwear and apparel dropped 6 percent and 1 percent respectively, the blended gross margin expanded to 40 percent from 33.5 percent in 2007. Net profit margin increased by 1.3 percentage points to 19.3 percent on lower effective tax rate. On March 22, 2009, Anta opened its 10th flagship store with a total sales floor area of 2'300 square metres in the core commercial district of Xi'an. The new store marked a significant milestone of the Group's retail network expansion in the northwestern China.

Yurun's 2008 net profit was HKD 1'138 million, increased by 32.4 percent year-on-year. Gross margin was at historical low at 13 percent for 2008 due to high cost inventory which was carried from the first-half of 2008 when prices hiked. According to the management, high cost inventory has been reduced and lower advertisement and transportation expenses for 2009 will pave the way for a strong margin recovery for 2009. Moreover, accelerating industry consolidation and widening spread between hog cost-pork price will drive Yurun's earnings in 2009.

# General Information

## Characteristics

|                            |   |
|----------------------------|---|
| Fund Name                  | HSZ China Fund  |
| Structure                  | Open-end<br>Swiss investment fund,<br>"Kategorie: Übrige Fonds" |
| Approved                   | August 2006 by Federal Banking<br>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%,<br>high water mark                 |
| Issuance Fee               | Maximum 5%  |
| Redemption Fee             | None  |

## Information

|                            |  |
|----------------------------|--|
| Prospectus/By-Laws         | Available upon request   |
| Publication of NAV (daily) | <a href="http://www.hszgroup.com">www.hszgroup.com</a><br><a href="http://www.aigprivatebank.com">www.aigprivatebank.com</a><br>Neue Zürcher Zeitung (NZZ) |
| Bloomberg                  | HSZCHFID, 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<br>HSZ (Schweiz) AG  |

## Contact

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|-----------|---|
| HSZ Group | Rm. 605A, Tower 2<br>Lippo Centre<br>Admiralty<br>Hong Kong<br>Tel: +852 2287 2300<br>Fax: +852 2287 2380<br>E-mail: <a href="mailto:mail@hszgroup.com">mail@hszgroup.com</a> |
|-----------|---|

## 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.

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