HSZ China Fund

Newsletter November 2007

- Delay of through train triggers fall in China's stock market
- Global Sources reported in-line third-quarter results
- Epure announced strong third quarter revenue growth
- China Mengniu saw a 15% increase in raw milk price
- Beijing Jingkelong saw a 23% growth in recurring earnings for 3Q 07

The delay of the through train concept allowing mainland chinese to buy Hong Kong listed China shares triggered a fall in the H-share stock market. Premier Wen rightly stated that it will take a couple of months for the scheme to be launched. Indeed one of the crucial reasons for the delay is the meteoric rise of the H-share market. As the reserve requirement ratio was raised to 13.5% and liquidity conditions tightened, the stock market traded lower during the month. MSCI China fell 17% (as of November 27). We trimmed positions in some stocks such as Li Ning and Cosco International to raise the cash level for the fund in the beginning of November. The fund sold all its A-share positions in October hence was shielded from a similar fall in the Shanghai A-share market.

For the nine months ended September 30, 2007, Global Sources reported a 26% growth in net income, in-line with expectations. Revenue was up 16% to USD 121 million, driven by the growth in China Sourcing Fairs exhibitions revenue and online and other media services revenue. Operating profit margin increased from 10.3% to 13.1% due to a growth in revenue and a decline in amortization of software costs set off partially by increases in operating costs. The company is making a big push into the China market by enhancing its existing online marketplace and launching a domestic B2B site later in the fourth quarter.

Epure International reported a 31% year-on-year growth in net profit to CNY 60.3 million for the third quarter of 2007. Revenue was up 41% to CNY 273 million, driven by its strong engineering business. Management guided that the gross profit margin will remain stable at around 30% on a full year basis. We expect Epure to be a key beneficiary of the opportunities offered by China's wastewater treatment sector.

China Mengniu saw a 15% year-on-year increase in raw milk price for the three months ended September 30, 2007 due to tight supply conditions. While the raw milk price is expected to increase further in the next four to five months due to seasonal factors, we expect the company to mitigate the earnings impact by launching new products, raising product prices and cutting advertising and promotion expenses.

Beijing Jingkelong reported a net profit of CNY 31.7 million for the three months ended September 30, 2007, up 23% year-on-year. The retailing and wholesale business were up 30% and 39% respectively, driven by strong consumer spending. Looking ahead, we expect the recent reopening of its Tianshuiyuan hypermarket and the new Jiuxianqiao Shopping Center to further enhance its business growth.

Figures as of November 30, 2007

Net Asset Value

Per Share: USD 134.19, CHF 120.47, EUR 116.47
Market Capitalization: USD 175.0 million

Share Price in USD since Nov 17, 2006

Performance

	Nov	YTD	1Y	Nov 17, 06
USD-Class	(13.2%)	25.6%	31.5%	34.2%
CHF-Class	(16.0%)	15.3%	22.0%	20.5%
EUR-Class	(14.9%)	12.2%	17.6%	16.5%

Largest Holdings

China Merchants Bank	9.4%
China Infrastructure	6.6%
Fu Ji Food & Catering	6.1%
Epure International	5.9%
Shui On Land	4.6%
Cosco International	4.6%

Exposure

Industrials	32.0%
Financials	26.0%
Consumer Discretionary	18.8%
Consumer Staples	5.6%
Utilities	2.5%
Information Technology	2.1%
Energy	2.1%
Materials	2.1%
Telecom Services	2.0%
Cash	6.8%

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.