

Newsletter October 2007

- 17th Party Congress strengthens President Hu's position
- Fu Ji Food's convertible bond issue oversubscribed
- China Merchants Bank's third quarter results ahead of expectations
- Kentucky Fried Chicken to sell China Mengniu's milk
- Re-rating expected for China Everbright on listing of subsidiary

The new leadership line-up announced at the 17th Party Congress strengthens the hands of President Hu Jintao and Premier Wen Jiabao. The two new stalwarts added are well-liked leaders who will give President Hu solid support and are known to be pro-business. On the economic front, September's Consumer Price Index of 6.2% will lead the government to keep monetary policy conditions tight. The fund has sold out its position in Daqin Railway, listed in the A-share market as valuations reached stretched levels and we remain cautious on the A-share market.

Fu Ji Food and Catering announced the acquisition of a 60% share of Sky Charm, a China based privately held company operating the Golden Hans restaurant chain that offers western-styled barbecued food and self-brewed beer. To fund the acquisition, the company will issue a 3-year zero coupon convertible bond (CB) due October 18, 2010. The aggregate amount of the CB is CNY 1.5 billion. The CB will be convertible into ordinary shares at a premium of 33%. Assuming full conversion, the CB will be convertible into approximately 47'162'207 shares, representing approximately 8.02% of the enlarged issued share capital of the company. HKD 800 million of the proceeds will be applied for the acquisition. The rest will be used to further develop its railway catering business and general corporate purposes.

China Merchants Bank announced a 128% growth in net profit to CNY 9'970 million for the first three quarters of 2007, ahead of the market's forecast. The stellar results were mainly driven by strong fee income growth, continued net interest margin expansion, improved cost-income ratio, low impairment charge and slightly lower tax rate. The company also saw improvement in its loan mix and continued strong momentum in its credit card business.

China Mengniu has been appointed as the exclusive dairy products supplier to Kentucky Fried Chicken's (KFC) China outlets, replacing Nestlé. Yum Brands' KFC currently has just under 2'000 outlets in China and management plans to increase this to 20'000 eventually. Separately, China Mengniu signed an agreement in June to provide liquid milk to Starbucks Corp's outlets in China, also replacing Nestlé. We believe China Mengniu's brand image will be further strengthened by distributing its products in the dominant global franchises. This helps the company to maintain its dominant market position in the Chinese dairy market.

China Everbright obtained approval from the China Securities Regulatory Commission to spin off Everbright Securities in the A-share market. Everbright Securities is one of the top 10 securities brokers in the Mainland. The earlier than expected green light will likely narrow the valuation gap for its securities business compared to its peers.

Figures as of October 31, 2007

Net Asset Value

Per Share: USD 154.51, CHF 143.36, EUR 136.93
Market Capitalization: USD 205.7 million

Share Price in USD since Nov 17, 2006



Performance

	Oct	YTD	1Y	Nov 17, 06
USD-Class	8.3%	44.6%	n.a.	54.5%
CHF-Class	6.9%	37.2%	n.a.	43.4%
EUR-Class	6.1%	31.9%	n.a.	36.9%

Largest Holdings

China Merchants Bank	8.4%
China Infrastructure	6.5%
Epure International	5.9%
Cosco International	5.9%
Fu Ji Food & Catering	4.7%
Shui On Land	4.4%

Exposure

Industrials	33.6%
Financials	22.4%
Consumer Discretionary	17.3%
Consumer Staples	5.1%
Energy	3.4%
Utilities	2.8%
Information Technology	2.3%
Telecom Services	2.2%
Materials	2.2%
Cash	8.7%

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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