HSZ China Fund

Newsletter September 2007

- US rate cuts and QDII drive stockmarket higher
- China Infrastructure reports strong turnover growth in first half
- China Mengniu's new product launch helped gross profit margins
- Xingda buys back shares
- Epure gains new contracts

Regional equities staged a strong rally towards the end of the month led by the US Federal rate 50 basis points cut and signs that recent liquidity problems in the UK money markets were easing. In China, a few Chinese asset management companies announced they will launch their products under Qualified Domestic Institutional Investor (QDII) schemes, investing a proportion of the assets in Hong Kong. This led to positive sentiment in the H-shares listed in Hong Kong. We have taken the opportunity to trim weightings in consumer stocks that have performed well.

For the six months ended June 30, 2007, China Infrastructure Machinery reported a 26% growth in net profit before fair value adjustment to convertible bond of CNY 381 million, slightly better than expectation. Turnover was up 36% to CNY 2'831 million, driven by a 33% growth in sales of wheel loaders. Gross profit margin increased from 23.7% to 24.4% led by an increase in export sales.

China Mengniu saw a 41% growth in net profit to CNY 485 million on a 33% growth in revenue to CNY 10'021 million in the first half of the year. Revenue from UHT milk increased by 34.6% to CNY 5'798 million whereas revenue from milk beverage products grew 43.6% to CNY 2'397 million, both driven by launch of new products. Gross profit margin also improved from 23.3% to 24.5%. We expect the company to continue to benefit from new product launches and its increasing dominance in the liquid milk market.

Xingda's profit excluding the fair value adjustment of convertible bond and forex loss was down 10% to CNY 131.7 million for the six months ended June 30, 2007. The results were below expectation due to a bigger than expected decline in the average selling price, although the sales volume for its core product radial tire cord was up 17.9% to 88'500 tons. For the second half of 2007, the average selling price of radial tire cord is expected to remain stable. We expect the company to see recovery in international sales in 2008. Following the announcement of the results, Xingda has bought back 10.4 million shares reflecting management's confidence in the company's outlook.

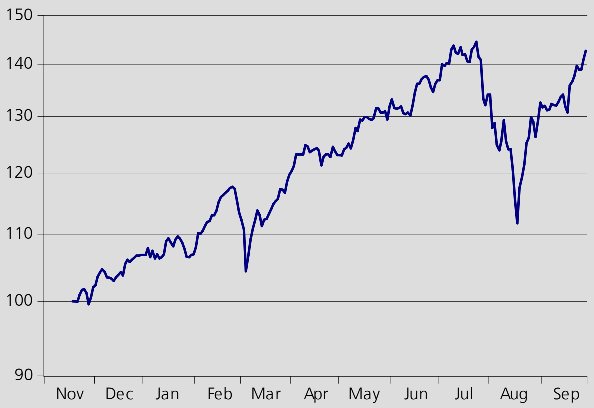
Epure International secured an equipment supply contract with a state-owned enterprise, amounting to approximately CNY 19.4 million. The built wastewater treatment system will have capacity to treat 120'000 tonnes of wastewater and 80'000 tonnes of recycled water per day. The award of the contract further demonstrates Epure's capability to handle large-scale and complex projects and reinforces its leading position in China's wastewater treatment industry.

Figures as of September 30, 2007

Net Asset Value

Per Share: USD 142.69, CHF 134.11, EUR 129.06
Market Capitalization: USD 194.6 million

Share Price in USD since Nov 17, 2006



Performance

	Sept	YTD	1Y	Nov 17, 06
USD-Class	7.6%	33.5%	n.a.	42.7%
CHF-Class	4.9%	28.3%	n.a.	34.1%
EUR-Class	4.0%	24.3%	n.a.	29.1%

Largest Holdings

China Merchants Bank	7.7%
China Infrastructure	7.0%
Epure International	5.4%
Fu Ji Food & Catering	5.0%
Shui On Land	4.9%
Cosco International	4.6%

Exposure

Industrials	32.0%
Consumer Discretionary	20.8%
Financials	18.9%
Transportation	4.7%
Consumer Staples	4.5%
Energy	4.0%
Utilities	2.6%
Telecom Services	2.4%
Information Technology	2.0%
Materials	1.8%
Cash	6.3%

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.