

## Newsletter November 2008

- China unveiled big stimulus package
- Ajisen saw healthy same-store-sales growth
- Epure posted another set of strong results
- Qingdao Haier sales soared 80 percent in countryside

Figures as of November 30, 2008

### Net Asset Value

Per Share: USD 50.00, CHF 48.14, EUR 49.57  
Market Capitalization: USD 36.4 million

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



### Performance

	November	YTD	1Y	Nov 17, 06
USD-Class	6.22%	(61.32%)	(62.74%)	(50.00%)
CHF-Class	11.33%	(58.70%)	(60.04%)	(51.86%)
EUR-Class	4.69%	(55.94%)	(57.44%)	(50.43%)

### Largest Holdings

Zhuzhou CSR	7.38%
China Merchants Bank	6.65%
Lonking Holdings Ltd.	6.44%
Anta Sports Products Ltd.	5.36%
Epure International Ltd.	4.96%
China Comm. Const.	4.03%

### Exposure

Industrials	39.4%
Consumer Discretionary	22.8%
Financials	16.5%
Consumer Staples	3.4%
Energy	3.2%
Cash	14.7%

The Chinese authorities announced a massive stimulus package on November 9. The total amount of spending is estimated to be CNY 4 trillion through 2010, which is approximately 16 percent of the annual GDP. The package is large in scale and is focused on economic housing, infrastructure, rural reform, environmental and healthcare system. In tandem with the package, the People's Bank of China also announced an aggressive cut in the benchmark deposit and lending rates by 108 basis points. The actions clearly show the determination of the central government to maintain economic growth and support the domestic demand through active fiscal policy and easy monetary policy.

The fund initiated a position in Ajisen, one of the largest fast casual restaurant chains selling Japanese Ramen in the PRC and HK, targeting at the mass market with a focus on the mid-to-high income group aged between 20 and 40 in China's first and second tier cities. Ajisen established a vertically integrated model, which incorporates sourcing, production, distribution and restaurant operation. As at first-half of 2008, Ajisen has over 250 restaurants and healthy same-store-sales growth of 7.8 percent. We believe the company is an attractive investment on the back of rapid expansion supported by strong branding and scalable model.

Epure delivered a strong set of results for the first three quarters in 2008, with revenue rising 46.8 percent year-on-year to CNY 758 million. Net profit increased by 55 percent year-on-year to CNY 182.3 million. The stronger bottom line growth was mainly due to the improvement in gross margin which increased by 4 percentage points to 34.5 percent. Order book remains firm, with EPC contracts stable at CNY 1 billion, and equipment fabrication at CNY 160 million, all together representing more than the full year estimated revenue in 2008.

On November 19, 2008, the state council announced the home appliance sales stimulus plan to be available for the whole country after the implementation in 3 trial provinces since last December. The subsidies are based on a 13 percent rebate of the selling price. Sales made by Haier in the countryside soared about 80 percent so far this year on the strength of the stimulus plan. In the first nine months of 2008, profits attributable to shareholders rose over 40 percent year-on-year. Presently, iceboxes and air-conditioners cover only 26.12 percent and 8.52 percent for rural households, which is a great opportunity for Haier.

# 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%
Redemption Fee	None

## Information

Prospectus/By-Laws	Available upon request
Publication of NAV (daily)	<a href="http://www.hszgroup.com">www.hszgroup.com</a> <a href="http://www.aigprivatebank.com">www.aigprivatebank.com</a> 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 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.