HSZ China Fund

Newsletter July 2007

- China's economy accelerates
- Fu Ji results in line with expectations
- Epure acquires water treatment company
- China Shenhua Energy on acquisition path
- Egana discontinued join venture with Richemont

China's real GDP growth accelerated to 11.9 percent year-on-year in the second quarter of 2007, driven by strong exports. With growth unabating, the People's Bank of China raised interest rates by 27 basis points and cut the withholding tax on interest from 20 percent to 5 percent. These two policies point to a continued tightening approach to manage inflation by the Central Bank of China. HSZ China Fund increased its weightings in selected property stocks such as Shimao and China Resources Land as the demand for residential housing remains resilient. With the new wealth created from the buoyant stock market, investment into the property sector is expected to remain strong.

Fu Ji Food & Catering (Fu Ji) reported a 38.5 percent increase in net profit to CNY 348 million for the year ended March 31, 2007. Sales increased by 50.5 percent. Due to the one-off expense related to a new processing centre and headcount increase, the operating margin declined 2.5 percentage points to 36.2 percent. As of March 31, 2007, Fu Ji produced a total of 567'500 sets of meals daily, representing 62.1 percent growth compared to the end of the last fiscal year. Results were in line with expectations and its railway contracts are expected to contribute to earnings from 2008 onwards. The long term outlook remains positive.

On July 16, 2007, Epure announced that it has signed a Memorandum of Understanding with Shanghai Jingke to acquire an equity stake from 70 percent up to 100 percent in Beijing Hi-Standard Water Treatment Equipment Co., Ltd (HSWTE), a wholly-owned subsidiary of Shanghai Jingke. Based on not more than 10 times the net earnings of HSWTE for its financial year ending December 31, 2007, management intends to spend SGD 28 million to SGD 40 million on the acquisition. The acquisition of HSWTE would help Epure ensure equipment supply, product quality and reduce costs of development.

China Shenhua acquired two more assets from its parent company. Shendong Coal and Shendong Power will be injected into Shenhua Energy for a consideration of about CNY 3.3 billion. This is to be funded by existing cash. Both Shendong Coal and Shendong Power are involved in the power generation business thereby enhancing Shenhua's leading position in the coal and power sector. We believe these purchases and further potential acquisitions will trigger outperformance of the stock.

Egana Goldpfeil announced that its joint venture with Richemont will be discontinued. According to the management, the joint venture, set up a year ago to explore business opportunities has been successful and hence is no longer needed. Egana is looking to collaborate with other players in the same industry to build its business abroad and the management believes that the dissolution of the joint venture has minimal impacts on the earnings of the company.

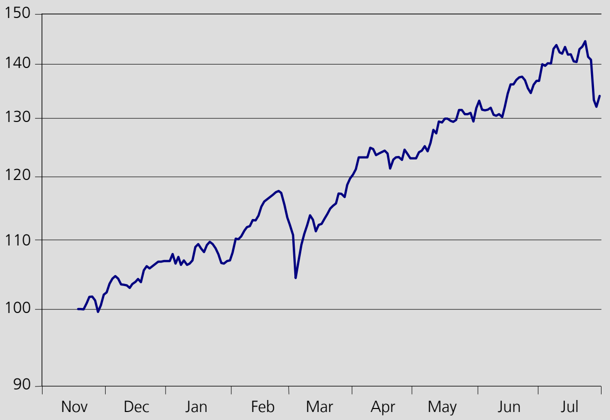
Figures as of July 31, 2007

Net Asset Value

Per Share: USD 134.06, CHF 129.23, EUR 125.12

Market Capitalization: USD 181.3 million

Share Price in USD since Nov 17, 2006



Performance

	July	YTD	1Y	Nov 17, 06
USD-Class	(2.0%)	25.5%	n.a.	34.1%
CHF-Class	(4.4%)	23.7%	n.a.	29.2%
EUR-Class	(4.0%)	20.5%	n.a.	25.1%

Largest Holdings

China Merchants Bank	7.4%
China Infrastructure	7.4%
Epure International	5.6%
Fu Ji Food & Catering	5.3%
Shui On Land	5.2%
Cosco International	4.3%

Exposure

Industrials	28.2%
Consumer Discretionary	24.9%
Financials	18.2%
Consumer Staples	5.4%
Transportation	3.7%
Energy	3.0%
Telecom Services	2.5%
Materials	2.2%
Information Technology	1.9%
Health Care	1.9%
Cash	8.1%

General Information

Legal Nature	Swiss Investment Fund, "Kategorie: Übrige Fonds"
Approved	August 2006 by Federal Banking Commission
Launch	November 17, 2006
Currency Classes	USD, CHF, EUR
ISIN, Valor, WKN	USD-Class CH0026828035, 2682803, A0LC13
	CHF-Class CH0026828068, 2682806, A0LC14
	EUR-Class CH0026828092, 2682809, A0LC15
Bloomberg	HSZCHID, HSZCFCH, HSZCHEU

Trading	Daily, based on NAV after June 30, 2007
Settlement	Euroclear, SegaInterSettle, Clearstream
Management Fee	1.5%
Performance Fee	10% above 5% hurdle rate, high water mark
Issuance Fee	Maximum 5%

Investment Manager	HSZ Group
Fund Administrator	AIG Fund Management (Schweiz) AG
Custodian Bank	AIG Private Bank AG
Main Distributor	HSZ (Schweiz) AG
Auditors	PricewaterhouseCoopers AG
Subscription	All Banks, HSZ (Schweiz) AG

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Investment Rationale

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 centre 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.

The Fund

HSZ China Fund is an actively managed long only equity fund investing in a selection of China rooted listed mid-cap companies. The Fund consists of the three currency classes USD, CHF and EUR whereof USD is the fund's reporting currency. HSZ China Fund is a Swiss Investment Fund which has been approved by Federal Banking Commission in August 2006. After June 30, 2007 the shares are tradable daily on the fund's net asset value.

Investment Strategy

The investment focus is on entrepreneurial companies, which have a considerable long-term growth potential and whose products and services have an edge. The fund is suitable for investors with a long-term investment horizon seeking capital appreciation. Low correlation with mature equity markets is expected to deliver diversification benefits. The objective is to create sustained shareholder value by acquiring and managing equity and equity-linked investments in a select number of high-quality companies that have a significant exposure to China, regardless of the listing location. Companies with significant China exposure generate at least 50 percent of their revenues and/or have at least 50 percent of their manufacturing capacity in China. 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.

The Manager

HSZ Group is an investment management company with offices in Hong Kong and Zurich. The company is majority owned by its four partners and employs a total staff of thirteen. The team has managed Asian equity portfolios since 1994.