HSZ China Fund

Newsletter June 2007

- China expands QDII investment
- Shimao restructuring cleans up corporate structure
- Hongguo ties up with foreign brand
- Pico's half-year results ahead of expectations
- SCUD fire to affect earnings

China continues to expand the scope of the Qualified Domestic Institutional Investors (QDII) scheme. China Securities Regulatory Commission issued provincial regulations permitting local security and fund management firms to raise funds domestically and invest in overseas securities. This led to a positive sentiment towards H-shares and red chips listed on the Hong Kong stock market. Fuelling the rally, the State Council approved the A-share listing of four large cap H-share companies: PetroChina, CCB, Shenhua and China Telecom. During the month, the fund trimmed its position in SCUD due to a specific company event.

Shimao Property proposed the participation of approximately 630 million new shares of Shanghai Shimao at an issue price of CNY 10.68 per share. The company also proposed to inject CNY 750 million to Shimao Enterprise. Through the above transactions, the company structure becomes cleaner with the H-share listed Shimao Property focusing on residential and hotel properties whilst the A-share listed company Shanghai Shimao owning the commercial properties.

Hongguo, a manufacturer and retailer of footwear, announced that it has entered into a joint venture (JV) agreement with US-based Brown Shoe Company Inc. to incorporate a JV company marketing 'Naturalizer' and 'Via Spiga' brands of lady shoes in Mainland China. The JV will operate the retail network of the two brands in Beijing, Shanghai, Guangzhou and Shenzhen and has exclusive distribution rights for the use of these two trademarks in the rest of China. This venture is expected to help increase sales of Hongguo by 10 percent next year.

Pico Far East's revenue was up 30 percent year-on-year to HKD 1'088 million, for the six months ended April 30, 2007. Exhibition business, sign advertising and exhibition hall management business reported 26 percent, 98 percent and 43 percent growth respectively. Operating margins improved 0.7 percent to 9 percent while net margins improved 0.5 percent to 7.4 percent led by significant margin enhancement in the Greater China region. We believe Pico can continue to ride on its sound profile and well-established networks to increasingly tap the booming exhibition markets in Asia and the Middle East, especially in China and India.

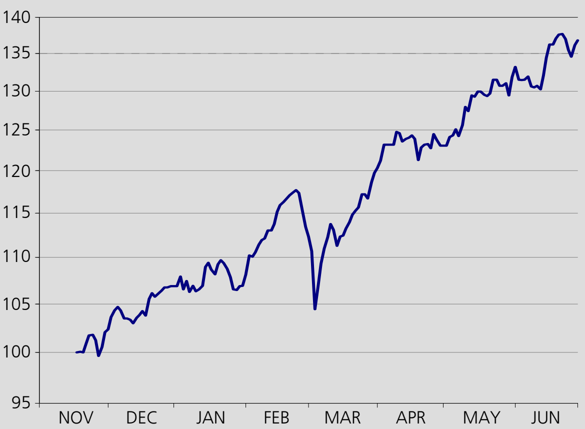
SCUD Group, a manufacturer of rechargeable battery packs for mobile phones lost its major production facility in Fuzhou to a fire on May 31. The fire caused structural damage to its plant and hence SCUD will not be able to replenish its raw materials quickly. Earnings for 2007 would be affected as the company will only be able to fully complete its new factory in early 2008. As such, we believe analysts will be downgrading earnings for the stock. We have reduced our position in the stock after a meeting with the management.

Figures as of June 30, 2007

Net Asset Value

Per Share: USD 136.84, CHF 135.19, EUR 130.30
Market Capitalization: USD 186.8 million

Share Price in USD since Nov 17, 2006



Performance

	June	YTD	1Y	Nov 17, 06
USD-Class	3.8%	28.1%	n.a.	36.8%
CHF-Class	4.4%	29.4%	n.a.	35.2%
EUR-Class	3.6%	25.5%	n.a.	30.3%

Largest Holdings

Fu Ji Food	8.9%
China Infrastructure	6.8%
Egana	6.7%
China Merchants Bank	6.1%
Epure International	5.3%
Shui On Land	4.5%

Exposure

Consumer Discretionary	31.4%
Industrials	24.6%
Financials	16.8%
Consumer Staples	5.1%
Transportation	3.1%
Energy	2.7%
Telecom Services	2.7%
Information Technology	2.3%
Materials	1.9%
Utilities	1.3%
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

HSZ Group	Woodbourne Hall P.O. Box 3162 Road Town, Tortola British Virgin Islands Tel: +1 284 494 54 14 Fax: +1 284 494 54 17 E-mail: mail@hszgroup.com
Hong Kong	Tel: +852 2287 23 00
Zurich	Tel: +41 44 288 95 95

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.