

Newsletter March 2007

- China economy continues to be strong
- China Infrastructure Machinery sees margin improvement
- Sports gear company Li Ning to benefit from the Olympics
- Shui On Group in Dalian project
- Ports Design reports a record year

The month started off on a weak note from the February sell off in China shares. The fund added positions in selected stocks that were sold down to reasonable levels, one of which is Li Ning, a manufacturer and distributor of sports shoes and sports gear similar to the international brand Adidas. Economic data from China remains strong. Industrial production growth picked up significantly to 18.5 percent year-on-year in January and February from 14.7 percent in December, led by buoyant exports growth. With these persistently strong numbers, the People's Bank of China is likely to keep a tight rein on monetary policy.

China Infrastructure Machinery reported 165 percent growth in net profit for the year ended December 31, 2006, ahead of market expectations. The strong earnings growth was driven by the 39 percent year-on-year growth in turnover led by strong demand for machinery for infrastructure development in China. Gross profit margin improved by 5.1 percentage points due to cost savings from vertical integration, decline in raw material prices and increased economies of scale. Looking forward, the company's management is confident about further margin improvements due to an increase in exports contributions and economies of scale.

During the year ended December 31, 2006, Li Ning reported a 30 percent year-on-year sales growth to CNY 3.2 billion. Net profit surged 58 percent, mainly on the back of strong sales momentum and continuous margin expansion (net margin up 1.7 percent). The company continues to benefit from the higher spending on sports apparel and footwear with its outstanding brand management and product design. With 4'300 stores across China, the company is set to benefit from the upcoming 2008 Beijing Olympic Games.

Shui On Group, including the private group, Shui On Land and Shui On Construction, is to develop a CNY 15 billion software park project in Dalian, northeast China. The development area is 4 million square meter. The consortium's total stake will be 70 percent with another local developer owning the remaining stake. This again proves the importance of the unique reputation and expertise of the Shui On Group in sourcing landmark projects in China.

Ports Design reported another record year in 2006, seeing a 54 percent year-on-year rise in net income to CNY 254 million on the back of 24 percent sales growth to CNY 1.1 billion. The retail business gross margin increased 2.4 percentage points to 80.9 percent. The number of BMW Lifestyle stores, in particular, has increased by 30 percent to 35 stores due to an excellent reception of its products.

Figures as of March 31, 2007

Net Asset Value

Per Share: USD 119.71, CHF 116.59, EUR 114.79
Market Capitalization: USD 169.3 million

Share Price in USD since Nov 17, 2006



Performance

	Mar	YTD	1Y	Nov 17, 06
USD-Class	5.6%	12.0%	n.a.	19.7%
CHF-Class	5.1%	11.6%	n.a.	16.6%
EUR-Class	4.5%	10.5%	n.a.	14.8%

Largest Holdings

Fu Ji Food	9.9%
China Infrastructure	7.9%
Egana	6.0%
Epure International	5.8%
Shui On Land	4.5%
China Merchants Bank	4.4%

Exposure

Industrials	23.2%
Consumer Discretionary	22.1%
Financials	15.2%
Consumer Staples	11.7%
Transportation	2.7%
Telecom Services	2.3%
Materials	1.8%
Energy	1.6%
Utilities	1.3%
Health Care	1.2%
Cash	16.9%

General Information

Legal Nature	Swiss Investment Fund, "Kategorie: Übrige Fonds"
Approved Launch	August 2006 by Federal Banking Commission 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	HSZCHIFD, HSZCFCHF, HSZCHEUR

Trading	Daily, based on NAV after June 30, 2007
Settlement	Euroclear, SegalInterSettle, 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	ALG Fund Management (Schweiz) AG
Custodian Bank	ALG 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.