HSZ China Fund

Figures as of May 31, 2007

Net Asset Value

Per Share: USD 131.83, CHF 129.45, EUR 125.72

Market Capitalization: USD 184.7 million

Share Price in USD since Nov 17, 2006

Performance

	May	YTD	1Y	Nov 17, 06
USD-Class	7.1%	23.4%	n.a.	31.8%
CHF-Class	8.9%	23.9%	n.a.	29.5%
EUR-Class	8.7%	21.1%	n.a.	25.7%

Largest Holdings

Fu Ji Food	9.2%
China Infrastructure	7.0%
Egana	5.9%
Epure International	5.2%
China Merchants Bank	5.1%
Shui On Land	4.2%

Exposure

Consumer Discretionary	35.0%
Industrials	23.8%
Financials	16.3%
Telecom Services	2.9%
Transportation	2.8%
Energy	2.2%
Materials	2.0%
Consumer Staples	2.0%
Health Care	1.0%
Information Technology	0.8%
Cash	11.2%

Newsletter May 2007

- China's Central Bank continues to tighten
- Beauty China posts strong first quarter results
- Shimao builds its landbank
- China Resources Land issues new shares
- Coal transport volume drives Daqin Railway's earnings

In May, the Shanghai A-share market continued to rally on the back of strong liquidity and generally good first quarter profits were reported. Since the beginning of this year, the positive stock market sentiment led to a wave of IPOs. Year-to-date, IPOs alone amount to USD 6 billion. In an effort to stem the rhetoric rise of the 'A' share market, the government took several measures including raising reserve requirements, widening the currency band and increasing the amount allowed for overseas investments for the banks. These tightening measures send a strong signal about Central Bank's policy intentions and its concern about the stock market. The 'A' share market is expected to see some correction given its current rich valuations. During the month, the fund took profits from our 'A' share position and COSCO International, a conglomerate with major business in China. The fund maintained a cash level of about 10 percent.

Beauty China reported a 30 percent growth in net profit to HKD 35.39 million for the quarter ended March 31, 2007. Revenue was up 32 percent to HKD 115 million, driven by the expansion of its retail network in China for colour cosmetics and skincare products – Colour Zone and CharmingLady. The company acquired a cosmetics manufacturing facility in Zhuhai, China, in March 2007, to enhance the quality control of its products and the expansion into the OEM business.

Shimao Property acquired a prime site in Fuzhou for CNY 1'150 million. This purchase increased its land bank to about 21 million square meters. The 50'000 square meters block will be translated into a commercial and residential project with a gross floor area (GFA) of about 400'000 square meters. This is the first site that the company has bought since raising HKD 3'856 million through a share placement in early May this year.

China Resources Land (CRL) placed 400 million new shares at HKD 9.81 per share, representing 11.97 percent of the existing issued share capital of the company. Part of the estimated net proceeds of HKD 3'919 million will be used for further land acquisitions. We expect CRL's parent company to incubate the land sites and inject them into CRL where and when appropriate.

Daqin Railway, a company listed in the 'A' share market, reported 82 percent growth in net profit of CNY 1'586 million for the quarter ended March 31, 2007. The strong earnings growth was driven by a 28 percent year-on-year growth in turnover led by coal transport volume growth. There was a CNY 217 million decrease in a depreciation expense compared to the same period last year due to a depreciation policy change in the first quarter last year. The earnings increase was also helped by a CNY 119 million reduction in interest cost as the company repaid a portion of its interest-bearing loans with the IPO proceeds. Following strong share price performance, we trimmed our position in the stock.

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.