HSZ China Fund

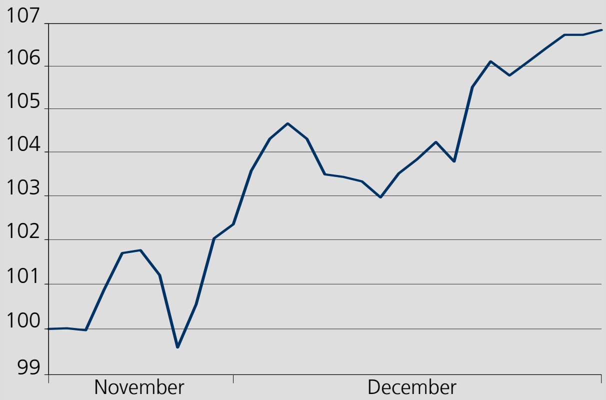
Figures as of December 31, 2006

Net Asset Value

Per Share: USD 106.85, CHF 104.50, EUR 103.85

Market Capitalization: USD 150.5 million

Share Price in USD since Nov 17, 2006



Performance

	Dec	YTD	1Y	Nov 17, 06
USD-Class	4.7%	n.a.	n.a.	6.9%
CHF-Class	5.8%	n.a.	n.a.	4.5%
EUR-Class	4.8%	n.a.	n.a.	3.9%

Largest Holdings

Fu Ji Food	5.4%
China Infrastructure	5.3%
Shui on Land	5.3%
China Merchants Bank	5.2%
HK & China Gas	5.0%
Egana	4.9%

Exposure

Financials	17.8%
Industrials	15.8%
Consumer Discretionary	10.5%
Consumer Staples	7.4%
Utilities	5.0%
Health Care	3.0%
Materials	2.9%
Telecom Services	1.8%
IT	1.5%
Cash	34.3%

Newsletter December 2006

- China's macro numbers remain strong in November
- Epure's new contract win to boost earnings
- Bank of East Asia sees increasing contribution from China operations
- China Mengniu sets up yogurt joint venture with Danone
- Shui On Construction sees 386 percent growth in net profit

China's November retail sales growth remained strong at 14.1 percent year-on-year and fixed asset investment growth reaccelerated to over 20 percent from 17 percent in October. The Central Bank hiked reserve requirements by 50 basis points in November in a further bid to tighten monetary policy. However, the buoyant performance of the initial public offerings in December indicates an abundance of liquidity in the system, which is unlikely to be restrained by the gradual tightening steps.

In December 2006, Epure secured a CNY 124 million turnkey project to construct a wastewater treatment system in the Inner Mongolia region. The project has a capacity of 100'000 tonnes per day and will be completed in 18 months. This contract added 30 percent to Epure's order book, increasing it to CNY 543 million, compared to its 2005 turnover of CNY 280 million.

Bank of East Asia (BEA) has steadily expanded its presence in mainland China. Currently BEA's China operation consists of 31 outlets, with total assets of CNY 60 billion. The China operation reported net profit of CNY 296 million for 2005, an increase of 74 percent over 2004 and accounted for 10 percent of BEA's net profit. Recently BEA obtained the approval from the China Banking Regulatory Commission for setting up a local corporation in China. Management expects completion of the registration by June 2007, which would further drive its growth in China and support its loan growth target of 40 percent.

On December 18, 2006, China Mengniu (Mengniu) announced the signing of 51-49 joint venture contracts with Groupe Danone (Danone), one of the world's leading food and beverages groups. The joint venture will produce and market fresh dairy products in China. Total investment will be CNY 1.6 billion, of which Mengniu will inject its existing yogurt operations and Danone will inject cash. The cooperation is expected to significantly strengthen Mengniu's yogurt operations which account for 6 percent of its sales currently. It will benefit Danone by giving it direct access to the fast growing China diary market, in addition to its existing investment in China.

During the six months ended September 30, 2006, Shui On Construction reported net profit of HKD 491 million, up 386 percent year-on-year. The spin-off of Shui On Land contributed HKD 534 million during the period, with another HKD 2.4 billion yet to be reflected. Cement operations have turned around with a HKD 6 million contribution compared to the HKD 36 million loss last year. The distressed assets business had a maiden contribution of HKD 32 million. Net debt to equity was lowered to 113 percent from 118 percent 6 months ago, and will further decline to 63 percent in December 2006. The results were above expectations. We remain positive on Shui On Construction's cement operations and distressed assets business.

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	HSZCHIFD, HSZCFCHF, HSZCHEUR

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 three partners and employs a total staff of twelve. The team has managed Asian equity portfolios since 1994.