HSZ China Fund

Newsletter February 2007

- Chinese government's rein on the stockmarket
- Egana's luxury goods business grows from strength to strength
- Fu Ji sales and margin improvement ahead of expectations
- Bank of East Asia benefits from growth in Hong Kong and China loans
- Competitive environment hurts AAC Acoustics

Figures as of February 28, 2007

Net Asset Value

Per Share: USD 113.40, CHF 110.90, EUR 109.87

Market Capitalization: USD 160.4 million

Share Price in USD since Nov 17, 2006

Performance

	Feb	YTD	1Y	Nov 17, 06
USD-Class	6.1%	6.1%	n.a.	13.4%
CHF-Class	3.3%	6.1%	n.a.	10.9%
EUR-Class	4.1%	5.8%	n.a.	9.9%

Largest Holdings

Fu Ji Food	10.4%
China Infrastructure	6.8%
Egana	6.6%
Shui on Land	5.4%
China Merchants Bank	4.8%
Cosco International	3.8%

Exposure

Consumer Discretionary	20.6%
Financials	16.4%
Industrials	16.3%
Consumer Staples	12.0%
Energy	2.6%
Health Care	2.5%
Utilities	2.5%
Telecom Services	1.5%
Materials	0.9%
Cash	24.7%

The Chinese Government implemented some measures to rein in the excess speculation in the 'A' share market. The Shanghai 'A' share index rose 50 percent in the fourth quarter of 2006 alone. These measures include instructing local commercial banks to screen out "mortgage refinancing" that has funneled into the stockmarkets. Some of these measures have taken effect as the stockmarket was sold off in February. As we had maintained cash within the portfolio given our previous cautious stance, we have taken the opportunity to buy on weakness. Furthermore, corporate earnings announcements have been ahead of expectations.

Fu Ji Food and Catering reported 50 percent growth in net profits for the nine months ended December 31, 2006, ahead of market expectations. Turnover was up 57 percent year-on-year to CNY 866 million, on the back of strong catering sales and sales from their Chinese restaurants. Operating and net profit improved significantly for the 9-month period. During the third quarter, turnover was up 46 percent year-on-year led by a 50 percent increase in catering sales and 11 percent increase in Chinese restaurant sales. On top of new contracts from universities and exhibition event organizers, the company is bidding to become the official caterer of the Beijing Olympics.

EganaGoldpfeil's (Egana) interim results showed encouraging growth and margin improvement. For the six months ended November 30, 2006, Egana's turnover amounted to HKD 3.3 billion, up 17 percent year-on-year and net profit rose 26 percent. Improvement was seen across all their sales regions. Operating margin was up 0.8 percentage points to 9.3 percent, helped by the successful consolidation of the recent acquisitions and operational efficiency. The integration of Salamander continues to bear fruit with margin improvement and higher sales from cross-selling of other brands in the Salamander stores.

Bank of East Asia (BEA) reported net profit of HKD 3'434 million for 2006, an increase of 25 percent, above market expectations. China operations have become more significant for BEA, accounting for 28 percent of its total loan book, with pretax profits rising 91 percent. BEA has also obtained a preliminary approval from Chinese regulators for establishing a locally incorporated bank, further helping its expansion into China.

During the month, we sold our position in AAC on the back of emerging competition from various Taiwanese component makers. We believe that the recent larger-than-expected deterioration in margins of global handset makers may trigger increasing price pressure for component manufacturers such as AAC. With 48 percent sales exposure to its largest tier-one customer, AAC is susceptible to more margin erosion risk. We are also concerned of the lingering effect of the Knowles' lawsuit, which may dampen earnings growth of the company in the coming years.

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