HSZ China Fund

Newsletter January 2007

- China continues with tightening policy
- China Mengniu teams up with NBA
- Pico's business shows improvement in second half
- Land appreciation tax aimed at cooling property market
- China Merchants Bank's 2006 earnings to exceed earlier guidance

Figures as of January 31, 2007

Net Asset Value

Per Share: USD 106.93, CHF 107.36, EUR 105.54
Market Capitalization: USD 150.9 million

Share Price in USD since Nov 17, 2006

Performance

	Jan	YTD	1Y	Nov 17, 06
USD-Class	0.1%	0.1%	n.a.	6.9%
CHF-Class	2.7%	2.7%	n.a.	7.4%
EUR-Class	1.6%	1.6%	n.a.	5.5%

Largest Holdings

Fu Ji Food	8.1%
China Infrastructure	5.9%
Egana	5.5%
China Merchants Bank	5.3%
Shui on Land	5.1%
Epure International	4.4%

Exposure

Industrials	18.5%
Financials	17.5%
Consumer Discretionary	12.0%
Consumer Staples	10.5%
Utilities	4.0%
Materials	3.0%
Health Care	2.5%
IT	2.0%
Telekom Services	2.0%
Cash	28.0%

China continues to further tighten monetary conditions. In January, the Central Bank of China raised the reserve requirement ratio by 50 basis points to 9.5 percent. Since 2006, the reserve requirement has been raised by a total of 200 basis points, signaling the intent of the Chinese government to rein in excess liquidity in the system. The HSZ China Fund has been holding a relatively high level of cash to gradually accumulate quality stocks as the stock market corrects.

China Mengniu Dairy (Mengniu) has signed a partnership agreement with the National Basketball Association (NBA) in the US to promote sports and nutrition via a program targeting 500 elementary schools across China. Mengniu will also be the official dairy product of the NBA in China and will promote its products during NBA programming. The partnership is expected to further enhance Mengniu's brand image.

Pico reported full year results ended October 31, 2006. Turnover was up 5 percent year-on-year to HKD 1.8 billion. Exhibition business and sign advertising reported 24 percent and 15 percent growth to 82 percent and 6 percent of total respectively. However, the museum interior fit-outs revenue dropped 63 percent to 6 percent due to big project completions last year. Operating profit was up 9 percent to HKD 165 million, lifted by a 22 percent increase in the second half which offset a one-off expense in the first half. Associates' profit was up 136 percent to HKD 16 million on better results in business lounges and its Thai associate. Net profit was up 12 percent to HKD 135 million. The company is confident of a stronger coming year.

On January 16, 2007, the State Administration of Taxation (SAT) of China issued a circular to further clarify issues related to the land appreciation tax (LAT). Property developers are required to comply with the LAT regulation that has been in place since 1994 and to pay progressive LAT rates of 30 to 60 percent of the difference between property sales proceeds and deductible cost items if the difference is above 20 percent, effective February 1, 2007. In the past, the provincial governments levied only 1 to 3 percent of property sales proceeds as LAT. The re-enforcement of the LAT rule will cap developers' margins and is the latest move by the central government to cool the property market. While we are positive on the outlook for the China property market in the long run, the latest move further dampens sentiment towards the property sector.

China Merchants Bank's management said that the bank's estimated net profit for 2006 is likely to increase by more than 50 percent. During the Hong Kong listing of China Merchants Bank in September 2006, China Merchant Bank's management disclosed in the offering prospectus an expected increase of 47 percent in net profit for 2006.

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

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 fourteen. The team has managed Asian equity portfolios since 1994.