

Newsletter January 2010

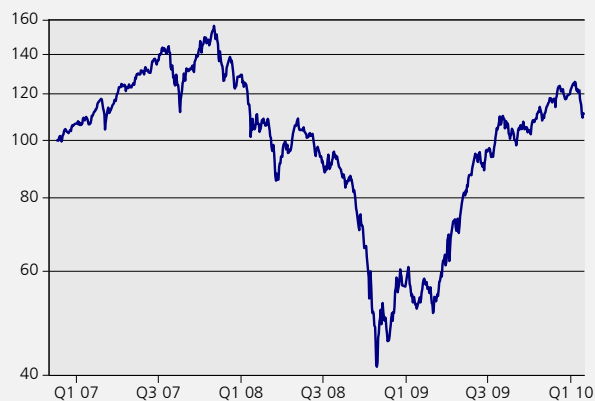
- China resumes double digit growth in fourth quarter
- Mindray announces strong preliminary operating results
- China Dongxiang is a leading international sportswear company
- Golden Eagle sees solid operating momentum

Figures as of January 29, 2010

Net Asset Value

Per Share: USD 111.08, CHF 93.83, EUR 102.53
Market Capitalization: USD 79.0 million

Share Price in USD since Nov 17, 2006



Performance

	January	YTD	1Y	Nov 17, 06
USD-Class	(8.67%)	(8.67%)	104.87%	11.08%
CHF-Class	(6.91%)	(6.91%)	87.14%	(6.17%)
EUR-Class	(5.68%)	(5.68%)	90.58%	2.53%

Largest Holdings

Epure International Ltd	6.8%
China Merchants Bank	5.8%
Ports Design	5.0%
Zhuzhou CSR	4.8%
Weichai Power	4.4%
Anta Sports Products Ltd	4.4%

Exposure

Consumer Discretionary	29.0%
Industrials	28.4%
Financials	19.9%
Consumer Staples	9.2%
Energy	4.2%
Information Technology	1.5%
Cash	7.8%

China's real GDP growth accelerated to 10.7 percent year on year in the fourth quarter last year, strengthening further from 9.1 percent in the preceding period. For the full year, it grew at 8.7 percent year on year compared to 9.6 percent in 2008. In 2009, retail sales and fixed asset investment in nominal terms gained 16 percent and 30 percent respectively. Exports and consumer price index also registered a stronger than expected growth of 18 percent and 1.9 percent in December 2009. To pre-empt overheating of the economy, the People's Bank of China announced a 50 basis points hike in the required reserve ratios as part of the policy normalization process and warranted from the liquidity management perspective.

Mindray released preliminary 2009 operating results with revenue to be USD 624 to 633 million, representing a growth of 14 to 16 percent year on year. Non-GAAP diluted EPS was expected to be no less than USD 1.29. The strong results were mainly driven by the strong tender orders in the fourth quarter from the Chinese government and some decent recovery in international sales. The company sets an initial revenue growth target of 17 percent and expects to launch seven to ten products for the year 2010. With its extensive distribution network, established brand, strong research & development capabilities and diversified portfolio, Mindray is set to benefit from the rapid hospital infrastructure expansion in China.

The fund initiated a position in China Dongxiang, one of the top three international sportswear companies in China. The company is primarily engaged in design, brand management and wholesaling of branded sportswear in China. The company has owned all rights to the Kappa brand in the PRC and Macau since May 2006 and has over 3'500 outlets by the end of 2009. Trade fairs for the first and the second quarter 2010 recorded 16 percent and 21 percent growth year on year. With its asset-light business model, extensive network and well-received fashionable and youthful image among the fast growing affluent consumers, we believe Dongxiang is an attractive investment.

Golden Eagle reported 22.5 percent overall same store sales (SSS) growth in the fourth quarter of 2009, with its flagship store, Nanjing Xinjiekou store registering a solid growth of 13 percent on a high base. The full year SSS growth is expected to be 16 to 17 percent. 3 stores openings in the second half of 2009 were completed as scheduled. Net cash at the end of 2009 is about CNY 1.8 billion and the capital expenditure for 2010 is about CNY 1.5 million. After the full conversion of its convertible bonds in the fourth quarter of 2009, the stock's free float has increased from 25 percent to 31 percent by the end of 2009.

General Information

Characteristics

Fund Name	HSZ China Fund
Structure	Open-end Swiss investment fund, "Kategorie: Übrige Fonds"
Approved	August 2006 by Swiss Financial Market Supervisory Authority
Launch	November 2006
Fund Volume	Launched at USD 130 million
Fiscal Year End	December 31
Reporting	Semi-annually in USD
Currency Classes	USD, CHF, EUR (all unhedged)
ISIN, Valor USD-Class, WKN	CH0026828035, 2682803, A0LC13
ISIN, Valor EUR-Class, WKN	CH0026828092, 2682809, A0LC14
ISIN, Valor CHF-Class, WKN	CH0026828068, 2682806, A0LC15
Issue price (all classes)	100
Distributions	Income annually
Issuance/Redemption	Daily
Management Fee	1.5% annually
Performance Fee	10% above hurdle rate of 5%, high water mark
Issuance Fee	Maximum 5%
Redemption Fee	None

Information

Prospectus/By-Laws	Available upon request
Publication of NAV (daily)	www.hszgroup.com www.falconpb.com Neue Zürcher Zeitung (NZZ) HSZCHIFD, HSZCHEUR, HSZCFCHF
Bloomberg	Subscription
Monthly Reports	Falcon Fund Management (Switzerland) Ltd.
Fund Administrator	Falcon Private Bank Ltd.
Custodian Bank	HSZ Group
Investment Manager	Falcon Fund Management (Switzerland) Ltd.
Main Distributor	PricewaterhouseCoopers Ltd.
Auditors	All Banks
Subscriptions	

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Investment Opportunity

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 center 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.

Investment Strategy

The objective of HSZ China Fund is to create sustained shareholder value by acquiring and managing equity and equity-linked investments in a select number of high-quality companies that are rooted in China. At least two-thirds of the total assets are to be invested in companies which are domiciled in China or participate as holding companies in enterprises domiciled there. At most one-third of the total fund volume can be invested in equity oriented stocks and money market instruments of issuers worldwide. 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.

Risk Management

The Chinese stock market has many of the particular risks and characteristics of emerging markets. HSZ Group exerts itself for reducing specific risks by accurately screening and monitoring high quality assets. That is why the long-lived experience of its specialists based locally is invaluable for investors. The fund is well diversified by investing in at least 15 companies. Each position represents a weight of between 5 to 10% of total assets with a maximum limit of 15%. No portfolio leverage is employed. The fact that HSZ China Fund invests in listed equity provides the investor with a reasonable degree of liquidity.

Investment Manager

HSZ Group is a Hong Kong based independent investment management company. Its investment team has been managing Asian equity portfolios since 1994.

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