HSZ China Fund

Newsletter February 2010

- Premier delivers annual works report at NPC
- Epure posts robust earnings growth
- Anta's full year results demonstrate strong execution and brand equity
- Lonking stands to benefit from China construction machinery up-cycle

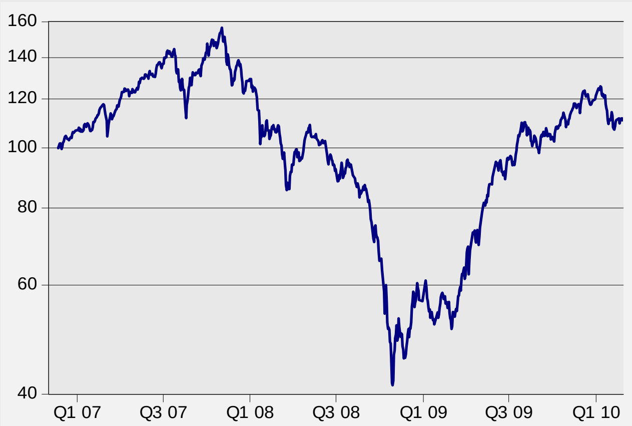
Figures as of February 26, 2010

Net Asset Value

Per Share: USD 112.04, CHF 96.89, EUR 106.06

Market Capitalization: USD 80.4 million

Share Price in USD since Nov 17, 2006

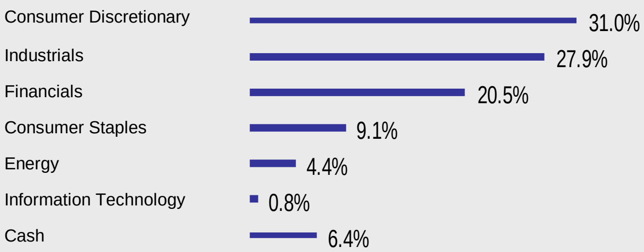


Performance

	February	YTD	1Y	Nov 17, 06
USD-Class	0.9%	(7.9%)	112.4%	12.0%
CHF-Class	3.3%	(3.9%)	96.5%	(3.1%)
EUR-Class	3.4%	(2.4%)	100.1%	6.1%

Largest Holdings

Exposure



Premier Wen reiterated proactive fiscal and moderately easy monetary policies, set benign growth and fiscal targets for 2010 in his annual works report at the National People's Congress. GDP growth and CPI inflation targets were set at 8 percent and 3 percent respectively. The total budget deficit was maintained at 2.8 percent of the yearly GDP, approximately CNY 1.05 trillion compared to CNY 950 billion last year. Greater efforts will be put on promoting the transformation of economic development pattern towards domestic consumption. Fiscal spending will be focused on rural development, affordable housing, healthcare, education and environmental protection. New lending target would be CNY 7.5 trillion, representing a loan growth of 18 percent, a tighter but still quite accommodative figure.

Epure delivered a strong set of results for the full year of 2009, with revenue rising 26 percent year on year to CNY 1'293 million, driven by the full year contribution from the sale of customized environment equipment and higher revenue from EPC projects. Net profit increased by 38 percent year on year to CNY 281 million. Gross profit margin was 29 percent in line with the long term sustainable level of 30 percent guided by the management. Order book was robust standing at CNY 1.3 billion, providing an earnings visibility for the coming two years.

Anta's turnover for the full year of 2009 increased by 27 percent year on year to CNY 5'874 million, driven by new store openings and high single digit same store sales growth. Gross margin grew impressively from 40 percent to 42.1 percent through reduced wholesale discounts, lower raw material prices and higher retail average selling prices. Net profit margin expanded from 19.3 to 21.3 percent and net profit came in at CNY 1'251 million, up by 40 percent. Average inventory turnover days improved 5 days to 38 days due to management's efficient control. The dividend payout ratio for the full year of 2009 was 61 percent.

Lonking's January 2010 wheel loader sales soared 458 percent year on year to 2'181 units, compared to the industry level at 140 percent. Consequently, Lonking's market share expanded from 18 percent in 2009 to 23 percent in the month and became the largest player in the wheel loader market in China. Moreover, Lonking continued penetrate into the excavator segment. China excavators' sales volume in January grew 244 percent year on year while Lonking outperformed other local players with year on year growth of 379 percent. On the whole, strong growth in sales indicates the industry entered the sweet spot of an up-cycle.

General Information

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.

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)
Bloomberg	HSZCHIFD, HSZCHEUR, HSZCFCHF
Monthly Reports	Subscription
Fund Administrator	Falcon Fund Management (Switzerland) Ltd.
Custodian Bank	Falcon Private Bank Ltd.
Investment Manager	HSZ Group
Main Distributor	Falcon Fund Management (Switzerland) Ltd.
Auditors	PricewaterhouseCoopers Ltd.
Subscriptions	All Banks

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