HSZ China Fund

Newsletter March 2010

- China sees recovery in exports underway
- New World Department Store in rebranding progress
- China Lilang is a leading menswear brand in China
- Lonking posts strong momentum in new businesses

Figures as of March 31, 2010

Net Asset Value

Per Share: USD 120.53, CHF 103.27, EUR 115.80
Market Capitalization: USD 91.9 million

Share Price in USD since Nov 17, 2006

Performance

	March	YTD	1Y	Nov 17, 06
USD-Class	+7.6%	(0.9%)	+93.7%	+20.5%
CHF-Class	+6.6%	+2.5%	+80.2%	+3.3%
EUR-Class	+9.2%	+6.5%	+92.1%	+15.8%

Largest Holdings

China Merchants Bank	6.6%
Sound Global Ltd	6.0%
Anta Sports Products Ltd	5.1%
Weichai power	5.0%
Lonking Holdings Ltd	4.8%
China Shenhua Energy	4.5%

Exposure

Consumer Discretionary	31.6%
Industrials	28.2%
Financials	21.7%
Consumer Staples	8.1%
Energy	4.5%
Cash	5.9%

Exports growth accelerated to 31 percent year on year for the first two months this year, as compared with 18 percent in December last year. Imports growth came in at 64 percent in the same period from 56 percent in the preceding month. The trade surplus narrowed to USD 7.6 billion in February, from USD 14.2 billion in January. February CPI inflation picked up to 2.7 percent year on year from 1.5 percent in January, mainly driven by food inflation which rose to 6.2 percent from 3.7 percent. Given the recovery in exports being underway and the accelerating inflation, it is China's favor for Renminbi to gradually exit the peg to USD to help contain the inflationary pressure and pre-empt trade protectionism.

Revenue for the first half of the fiscal year 2010 grew 12 percent year on year to HKD 988 million, driven by 78 percent growth in direct sales, 18 percent growth in rental income and 2.6 percent growth in concessionaire sales. Net profit increased by 5.2 percent on lower interest income due to the lower deposit rate. Rebranding programme has been in progress and affected the traffic flow. As a result, same store sales growth was 2.7 percent during the reporting period. The payout ratio was maintained high at 50 percent, similar to the same period last year. As of 31 December 2009, there were 33 stores, with a total gross floor area of 1'068'330 square metres covering 17 cities. VIP members reached 1.77 million nationwide.

The fund initiated a position in China Lilang, one of the leading menswear brands in China. It offers fine quality menswear under the LILANZ and L2 brands and its products can be classified as business formal, business casual, fashion causal and sports series. Turnover for the year of 2009 reached CNY 1.56 billion, increased by 37 percent year on year. Margins expanded significantly with net margin up by 5.8 percentage points to 19.4 percent. Net profit came in at CNY 303 million. With Lilang's leading market share, it benefits from the consolidation of the fragmented market. It also strategically established presence in second- and third-tier cities as its core market to capture the fast growing mass market. With its extensive network and brand equity, we believe Lilang is an attractive investment.

Lonking's recurring net profit grew 39 percent year on year to CNY691 million. Revenue increased by 12 percent to CNY 6.9 billion, driven by the strong growth in sales from new products, with excavator, forklift and road roller sales up 247 percent, 87 percent and 129 percent respectively, offsetting the decline in wheel loader sales of 4 percent. Operating margin improved by 4.4 percentage points to 14.7 percent on lower steel material costs, better product mix and cost control. Management guided its major products achieved a strong volume growth of 56 percent and 88 percent year on year in wheel loaders and excavators respectively.

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)	
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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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.