HSZ China Fund

Newsletter April 2010

- China witnesses fast GDP growth in the first quarter
- Weichai benefits from strong downstream recovery
- China High Speed demonstrates good profitability
- Daphne leads ladies footwear market in China

Figures as of April 30, 2010

Net Asset Value

Per Share: USD 119.54, CHF 104.10, EUR 116.32
Market Capitalization: USD 91.9 million

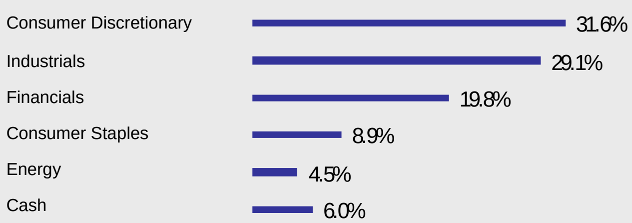
Share Price in USD since Nov 17, 2006

Performance

	April	YTD	1Y	Nov 17, 06
USD-Class	(0.8%)	(1.7%)	+60.9%	+19.5%
CHF-Class	+0.8%	+3.3%	+54.3%	+4.1%
EUR-Class	+0.5%	+7.0%	+59.8%	+16.3%

Largest Holdings

Exposure



China's real GDP growth accelerated to 11.9 percent year on year in the first quarter this year, strengthening further from 10.7 percent in the preceding period. Consumption remained resilient with nominal retail sales up by 18.0 percent in March from 17.9 percent in January to February period. CPI inflation was 2.4 percent year on year in March, as compared to 2.7 percent in February. In response to the recent rapid price increase in the residential property market, the authorities have been rolling out a series of mortgage tightening with a view to curbing the speculative demand, which is considered positive to the long term economic development and systematic financial stability.

Weichai Power reported that turnover rose 7.2 percent year on year in 2009 to CNY 35.5 billion. Net profit soared 76 per cent to CNY 3.4 billion. Gross margin expanded to 24.0 percent from 19.9 percent in 2008 due to the better product mix and lower steel costs. Net margin improved by 3.8 percentage points to 9.6 percent. For the first quarter this year, the results continued its strong momentum, with a strong top-line growth of 146 percent and further net margin improvement on the back of strong sales volume among its major products, namely engines, gearboxes and heavy duty trucks.

China High Speed's turnover for the full year of 2009 was CNY 5.6 billion, increased by 64 percent year on year. Adjusted net profit leaped 129 percent year on year to CNY 1.1 billion on a higher gross margin and lower operating expenses. Wind gear sales remained strong and accounted for 67.4 percent of the total revenue compared to 52.4 percent in 2008. In 2009, 92 percent of the wind sales were from China and accounted for 50 percent market share in China. The company will enter the mass production phase of 3MW wind gearbox for Goldwind's hybrid wind turbines in 2010.

The fund initiated a position in Daphne International, a leading ladies' footwear brand in China's mass market segment. Daphne is engaged in brand business in China and original equipment manufacturing for clients overseas. The company owned two brands namely Daphne and Shoebox and a few licensed brands including Arezzo, Sofft and Born. As at December 31, 2009, the number of stores and counters in China reached 3'363. For the full year of 2009, turnover increased by 10.3 percent year on year to HKD 5'832 million. Gross margin expanded from 52.7 percent to 55 percent. Recurring net profit came in at HKD 597 million, up by 21 percent year on year. Given the company's leading position in China's ladies' footwear market in terms of sales volume, alongside its strong brand equity we believe Daphne is an attractive investment.

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.