HSZ China Fund

Figures as of May 31, 2010

Net Asset Value

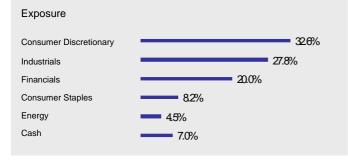
Per Share: USD 112.41, CHF 104.20, EUR 117.46

Market Capitalization: USD 86.8 million



Performance				
	May	YTD	1Y	Nov 17, 06
USD-Class	(6.0%)	(7.6%)	+22.7%	+12.4%
CHF-Class	+0.1%	+3.4%	+31.2%	+4.2%
EUR-Class	+1.0%	+8.1%	+39.8%	+17.5%





Newsletter May 2010

- China's investment moderates on policy exit
- AAC Acoustics sees new product mix beyond currency impact
- Anta lifts its brand equity by leveraging on the COC sponsorship
- Sound Global delivers positive first quarter results

China's exports growth accelerated to 31 percent from a year earlier in April, as compared with 24 percent in March. Imports growth came in at 50 percent in the same period from 66 percent in the preceding month. Both trade data suggested the recovery of the external environment being on track and a moderation in domestic demand due to the tightening measures in China. While nominal retail sales remained resilient, strengthening by 50 basis points to 18.5 percent year on year, fixed asset investment moderated to a 26.1 percent growth for the first four months this year, indicating the effect of the gradual fiscal policy exit and the control of newly started projects especially in the sectors with overcapacity.

AAC's turnover for the first quarter of 2010 increased by 60 percent year on year to CNY 600 million but a seasonal decline of 14 percent quarter on quarter. Net profit came in at CNY 170 million, up 125 percent year on year but decreased by 24 percent quarter on quarter mainly on euro depreciation impacting margins to drop by 3 percentage points. Balance sheet remained strong with cash at CNY 1.9 billion. AAC will start supplying to new customers Samsung, Apple and HTC. The company expects sales to these customers to reach 15 percent of the full year 2010 sales, suggesting smartphone business is gaining momentum.

Anta opened 902 stores to a total number of 6'727 stores in the first three months of 2010. During the period, Anta sold 10'209'000 pairs of footwear and 15'201'000 pieces of apparel, 8.1 percent and 24 percent increase year on year respectively. In the winter season trade fair, the company has expanded significantly its Chinese Olympic Committee (COC) related product offerings. Currently, the COC products are available in 500-600 Anta stores, and the company expects to increase coverage this year with a focus on Guangdong province to leverage on the Asian Games held in Guangzhou in November 2010. Furthermore, COC's online partner, Sina, launched "Anta-Sina China Sports Channel" in May, marking a three-way cooperation between COC, Anta and Sina on a wide range of areas including marketing and sporting events.

Sound Global achieved CNY 234 million of sales for the first quarter of 2010, 73 percent increase year on year, driven by strong contributions across all the three divisions. Gross profit margin remained flat at 30 percent. Net attributable profit came in at CNY 45.6 million despite an additional CNY 7 million expense relating to the listing on the Hong Kong Stock Exchange. As at March 31, 2010, the company had a cash position of CNY 1'266 million. In addition, the company signed an indicative credit line of USD 600 million from China Merchants Bank to accelerate the expansion into the capital intensive Build, Operate and Transfer business.

General Information

Characteristics

Approved

Fund Name HSZ China Fund Structure Open-end

Swiss investment fund,
"Kategorie: Übrige Fonds"
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 Publication of NAV (daily)

Available upon request www.hszgroup.com

HSZCHIFD, HSZCHEUR,

www.falconpb.com Neue Zürcher

Zeitung (NZZ) Bloomberg 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.

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