

Figures as of	December 31, 2010
Net Asset Value	USD 134.78, CHF 100.38, EUR 129.41
Fund Size	USD 136.6 million
Inception Date*	May 27, 2003
Cumulative Return	283.2% in USD
Annual Return	19.3% in USD

* The track record is the combination of two consecutive track records of China Investment Corporation (CIC) and HSZ China Fund (HCF). From May 27, 2003 to November 17, 2006 it is the performance of CIC, a trust account managed by HSZ Group for listed Chinese equities. Since the launch of HCF on November 17, 2006 it is the performance of HCF.

Net Asset Value (Monthly)



Performance

	December	YTD	1 Year	Nov 17, 06
USD Class	(5.7%)	+10.8%	+10.8%	+34.8%
CHF Class	(11.9%)	(0.4%)	(0.4%)	+0.4%
EUR Class	(8.4%)	+19.1%	+19.1%	+29.4%

Largest Holdings

China Merchants Bank	5.4%	
Ports Design	5.3%	
Sound Global Ltd	5.2%	
Zhuzhou CSR	5.0%	
Ping An Insurance	4.9%	
Weichai Power	4.9%	

Exposure

Consumer Discretionary	31.8%	
Industrials	30.6%	
Financials	19.6%	
Energy	7.9%	
Consumer Staples	6.6%	
Cash	3.5%	

Newsletter December 2010

- China hikes interest rates for second time
- GCL-Poly Energy is the largest Chinese polysilicon producer
- Belle International enjoys a strong brand franchise
- Dongfeng delivers strong sales in the full year of 2010

CPI inflation hit a 28-month high of 5.1 percent year on year in November, compared with 4.4 percent in October, aggravating the negative real interest rate situation in China. In response to this, the central bank of China raised the benchmark interest rates for both lending and deposit on December 25, 2010 for the second time in about two months, in a move aimed at keeping inflation under control. Both the one-year benchmark lending rate and deposit rate would be raised by 25 basis points to 5.81 percent and 2.75 percent respectively. This is in line with Beijing's earlier announcement of changing the monetary stance from moderately loose to prudent with a view to avoiding economic overheating.

The fund initiated a position in GCL-Poly Energy (GCL), one of the leading polysilicon and wafer suppliers in the world and the largest polysilicon producer in China, delivering high quality and low cost silicon products to the solar industry. GCL has successfully scaled up its polysilicon production capacity in the past while being able to remain cost competitive. The polysilicon & wafer facilities, solar farms and most of the power plants are located in Jiangsu and Zhejiang, China. Due to high entry barriers, so far GCL is the only Chinese polysilicon producer that has a sizable scale and a low enough cost structure to compete with the global producers. Moreover, GCL has a strong customer base such as Suntech, Trina Solar, Canadian Solar, JA Solar and Solar Fun. Hence, we believe GCL is an attractive investment.

The fund initiated a position in Belle International (Belle), the top ladies footwear and leading sportswear retailer in China. As of June 30, 2010, Belle has 10'315 points of sales in China. Belle enjoys brand leadership and adopts multi-brand strategy. Its brands attributed to about 24 percent of the total market share based on department store sales. Belle has a vertically integrated supply chain with a high degree of in-house production flexibilities. Driven by strong same store sales growth, efficient supply chain management and its market leading position in department stores, we believe Belle is an attractive investment with long-term sustainable growth potential.

Dongfeng's December sales increased by 16 percent year on year to 123'347 units, outpacing the market growth of 12.4 percent for the same period. The full year sales increased by 31 percent year on year to 1.3 million units. Dongfeng plans to roll out 9 new models in 2011, compared with only 4 models per year in both 2009 and 2010. New models include 3 from Nissan JV, 2 from Honda JV and PSA JV respectively and 1 from Fengshen and Liuzhou respectively.

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.

Name	HSZ China Fund
Theme	Entrepreneurial China
Nature	Long-only equity fund, actively managed for absolute return
Focus	Listed Chinese equities focusing on privately controlled companies

Structure	Swiss investment fund, regulated by FINMA, open-ended
Distributions	Income annually
Fiscal Year End	December 31
Reporting	Semi-annually in USD
Currency Classes	USD, CHF, EUR (all unhedged)
Trading	Daily issuance and redemption, based on net asset value

Fund Manager	Falcon Fund Management (Switzerland) Ltd., Zurich
Custodian Bank	Falcon Private Bank Ltd., Zurich
Investment Manager	HSZ Group, Hong Kong
Auditors	PricewaterhouseCoopers Ltd.
Management Fee	1.5% annually
Performance Fee	10% above hurdle rate of 5%, high water mark
Issuance Fee	Maximum 5%
Redemption Fee	None

USD Class	ISIN CH0026828035, Valor 2682803 WKN A0LC13 Bloomberg HSZCHID SW Equity
CHF Class	ISIN CH0026828068, Valor 2682806 WKN A0LC15 Bloomberg HSZCFCH SW Equity
EUR Class	ISIN CH0026828092, Valor 2682809 WKN A0LC14 Bloomberg HSZCHEU SW Equity

Orders via Banks	Falcon Private Bank Ltd. Fund Order Desk Pelikanstrasse 37, PO Box 1376 8021 Zurich, Switzerland Tel: +4144 227 5566 Fax: +4144 824 6932
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