HSZ China Fund

Figures as of	January 31, 2011
Net Asset Value	USD 133.55, CHF 100.26, EUR 126.22
Fund Size	USD 135.9 million
Inception Date*	May 27, 2003
Cumulative Return	279.7% in USD
Annual Return	18.9% 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

	January	YTD	1 Year	Nov 17, 06
USD Class	(0.9%)	(0.9%)	+20.2%	+33.6%
CHF Class	(0.1%)	(0.1%)	+6.9%	+0.3%
EUR Class	(2.5%)	(2.5%)	+23.1%	+26.2%

Largest Holdings

Ports Design	5.4%
China Merchants Bank	5.1%
Lonking Holdings Ltd	5.0%
Weichai Power	5.0%
Zhuzhou CSR	5.0%
Anta Sports Products Ltd	4.8%

Exposure

Consumer Discretionary	33.3%
Industrials	30.2%
Financials	18.7%
Energy	8.3%
Consumer Staples	5.8%
Cash	3.7%

Newsletter January 2011

- China's economy becomes the world's second largest
- Belle achieves strong sales growth and network expansion
- KWG benefits from acquisitions in new cities
- Ports Design completes retail repositioning

China's real GDP growth accelerated to 9.8 percent year on year in the fourth quarter last year, strengthening from 9.6 percent in the preceding period. For the full year, it grew 10.3 percent year on year, up from 9.2 percent in 2009. Based on the full year output, China's economy has surpassed Japan to become the world's second largest. In 2010, retail sales and fixed asset investment were once again the key drivers of the development. They rose approximately 18 percent and 25 percent respectively in nominal terms. Exports and imports grew 31 percent and 39 percent on the back of steady recovery of the external demand and robust growth in the domestic economy. CPI inflation accelerated to 4.7 percent from a year earlier in the fourth quarter, compared to 3.5 percent in the third quarter, which would likely force China to tighten the monetary conditions further.

Belle posted 16 percent and 7 percent same store sales (SSS) growth in the fourth quarter of 2010 for the footwear and sportswear businesses respectively, compared to 18 percent and 3 percent in the first three quarters. It ended the year with 8'312 and 3'655 outlets for the respective segments, an addition of 1'562 and 793 numbers in 2010, the pace of which was more than double in 2009. Both the SSS and store opening figures were above management's previous guidance. For 2011, management guided at least 1'000 new stores for footwear and 400 to 500 new stores for sportswear, which bodes well for the earnings momentum for the quarters to come.

KWG's contracted sales for the full year of 2010 achieved CNY 11 billion, increased by 45 percent year on year and above the company's guidance by 10 percent. In the second half of 2010, the company acquired four sites in Shanghai with total attributable GFA of 365'000 square meters (sqm) at reasonable costs of CNY 15'000 per sqm in Pudong, CNY 9'000 per sqm in Putuo, CNY 5'000 per sqm in Jiading and CNY 13'000 per sqm in Xinjianwan. Together with acquisitions made in the existing cities, the company's land bank stood at 8.9 million sqm, 30 percent higher than the end of 2009. Management targets a 36 percent year on year growth for the contracted sales in 2011 to CNY 15 billion. Driven by both new phases of the existing projects and launches in new cities, management expects an ASP uptick and GFA sales expansion in 2011.

Ports Design maintained a stable turnover growth in the second half of 2010 and recorded a 16 percent same store sales growth in the last quarter. Ports has completed two years of retail network repositioning program in 2010 and will resume net store opening at a double-digit growth rate for 2011 to 2012. Retail stores stood at 353 at the end of 2010, as compared to 356 in 2009. Further leveraging on the brand loyalty, Ports will introduce a new brand, P61, during 2011. It aims at a new generation of fashion consumers that are young, urban and stylish. Besides, due to higher growth from the menswear segment, the company will accelerate the store openings for menswear only dedicated stores.

General Information

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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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.