HSZ China Fund

Figures as of	February 28, 2011
Net Asset Value	USD 126.78, CHF 93.91, EUR 118.70
Fund Size	USD 131.7 million
Inception Date*	May 27, 2003
Cumulative Return	260.5% in USD
Annual Return	17.9% 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

	February	YTD	1 Year	Nov 17, 06
USD Class	(5.1%)	(5.9%)	+13.2%	+26.8%
CHF Class	(6.3%)	(6.4%)	(3.1%)	(6.1%)
EUR Class	(6.0%)	(8.3%)	+11.9%	+18.7%

Largest Holdings

China Merchants Bank	5.3%
Weichai Power	5.1%
Anta Sports Products Ltd	5.0%
Lonking Holdings Ltd	5.0%
Ping An Insurance Group	4.8%
Ports Design	4.8%

Exposure

Consumer Discretionary	32.8%
Industrials	28.2%
Financials	21.2%
Energy	8.8%
Consumer Staples	5.8%
Cash	3.2%

Newsletter February 2011

- China imports a trade deficit in February
- Mindray's acquisition provides synergies to existing product line
- Anta delivers strong results despite rising costs
- Sound Global continues robust earnings growth

China swung to a surprise trade deficit in February. Export growth slowed sharply to 2.4 percent year on year while import growth also moderated to 19 percent. A deficit of USD 7.3 billion was recorded in February, compared to a surplus of USD 6.4 billion in January. The noticeable slowdown in the growth was temporary and distorted by the timing of China's Lunar New Year holiday. Taking January and February as a whole, exports and imports accelerated to growth of 21 percent and 36 percent respectively, from 18 percent and 26 percent in December 2010, which showed a healthy external and internal demand. CPI inflation remained elevated at 4.9 percent in February. Fixed asset investment and retail sales rose 25 percent and 16 percent respectively in nominal terms for the first two months in 2011.

Mindray's revenue for the fourth quarter and full year of 2010 increased by 11.7 percent and 11.1 percent year on year to USD 211 million and USD 704 million respectively. Revenue from patient monitoring & life support, in-vitro diagnostic product and medical imaging system segments increased by 19.9 percent, 11.4 percent and 4.3 percent respectively in the fourth quarter, contributing 47 percent, 24.2 percent and 24 percent to the total revenue. Net margin improved by 20 basis points and net income came in at USD 156 million. In February 2011, the company acquired a controlling stake in Shenzhen Shenke, an infusion pump manufacturer in China, which Mindray expects it to complement the patient monitoring & life support product line in providing total solutions to the customers and enhance the company's competitive position.

Anta's turnover for the full year of 2010 increased by 26 percent year on year to CNY 7.41 billion. Gross profit margin improved by 70 basis points year on year 42.8 percent despite rising unit costs of footwear and apparel. Operating profit margin saw a slight contraction of 30 basis points due to higher advertising & promotion expenses. Net profit came in at CNY 1'551 million, up 24 percent year on year. In 2010, ANTA stores grew 958 to 7'549, with average wholesale price increased by 4 percent to CNY 99.5 for footwear and 8.8 percent to CNY 65.8 for apparel. For other brands, Anta has 749 Lifestyle series stores and 383 Kids series stores. In 2010, the company has integrated the PRC and Hong Kong teams of Fila and has begun the roll-out plan targeting to reach 300 Fila stores by the end of 2011.

Sound Global posted a strong set of results for the full year of 2010, with revenue up 37 percent year on year to CNY 1'766 million, driven by the maiden contributions from the project in Saudi Arabia and the operation & maintenance contract for eight municipal wastewater treatment plants in Hainan. Net profit increased by 35 percent year on year to CNY 381 million. Gross profit margin improved by 1.4 percentage points to 30.4 percent, in line with the long term sustainable level of 30 percent guided by the management. Order book was robust standing at CNY 2.2 billion, providing earnings visibilities for the coming two years.

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

Contact & Website

HSZ Group
Unit 605A, 6/F, Tower 2
Lippo Centre, 89 Queensway
Hong Kong
Tel: +852 2287 2300
Fax: +852 2287 2380
www.hszgroup.com
mail@hszgroup.com

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.