



# FALCON FUND MANAGEMENT

Falcon Fund Management (Switzerland) Ltd.  
for

**HSZ** China Fund

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## Annual Report 2010 HSZ China Fund

Mutual fund under Swiss law (category "other fund for traditional investments")

## CONTENT

<p>Falcon Fund Management (Switzerland) Ltd. Hochbordstrasse 3 CH-8600 Dubendorf-Zurich Phone +41 44 882 13 21 Fax +41 44 882 13 24 www.falconpb.com</p> <p>The HSZ China Fund was launched for HSZ Limited, British Virgin Island by Falcon Fund Management (Switzerland) Ltd. as fund manager and Falcon Private Bank Ltd. as custodian.</p>	<p><b>Facts and Figures</b> <span style="float: right;">3</span></p> <p>Characteristics of the Fund Organization Remarks Key Data</p> <p><b>Annual Report</b> <span style="float: right;">4</span></p> <p>Review 2010 Stock Market and Investment Policy Outlook 2011</p> <p><b>Annual Statement of Accounts</b> <span style="float: right;">5-10</span></p> <p>Statement of Income Statement of Assets Off-Balance Sheet Transactions Changes of the Fund's Net Assets Portfolio Composition Changes in Securities Holdings</p> <p><b>Explanatory notes to the annual report</b> <span style="float: right;">11</span></p>
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The performances shown in this report refer to the past. Historic developments are no guarantee for future performances. The value of a unit can rise and fall any time. The performance data does not include the costs and commissions, which are charged when units were issued or redeemed.

## REPORT OF THE AUDITORS

### Short-form report of the statutory auditor in accordance with CISA to HSZ China Fund

#### Short-form report of the statutory auditor in accordance with CISA on the annual report

As a statutory auditor in accordance with CISA (Kollektivanlagengesetz, Swiss Collective Investment Schemes Act), we have examined the annual report of the investment fund HSZ China Fund, consisting of the financial statements and further information as per Art. 89, para 1 a-h CISA, for the financial year ended December 31, 2010.

#### Responsibility of the Board of Directors

The Board of Directors of the Fund Manager is responsible for drawing up the annual report in compliance with the provisions of CISA. Furthermore, the Board of Directors is responsible for the selection and application of proper accounting methods and for making appropriate estimates.

#### Responsibility of the auditor

Our responsibility is to issue an audit opinion on the annual report based on our audit. We conducted our audit in compliance with Swiss law and Swiss auditing standards. On the basis of these

standards, audits are to be planned and performed in such a way that material misstatements in the annual report are reasonably certain to be recognized.

An audit includes the performance of audit activities to obtain audit evidence for the valuations contained in the annual report and other information. The choice of audit activities is a matter for the dutiful discretion of the auditor. This incorporates an assessment of the risks of material misstatements in the annual report as a result of violations or errors. The audit also incorporates an assessment of the appropriateness of the accounting methods used, the plausibility of the estimates made and an evaluation of the overall picture presented by the annual report. We are of the view that the audit evidence obtained by us provides a sufficient and appropriate basis for our audit opinion.

#### Audit opinion

In our view, the annual report for the financial year ended December 31, 2010 complies with the Swiss Collective Investment Schemes Act (CISA), the associated ordinances, the fund contract and the prospectus.

### Reporting due to additional statutory regulations

We confirm that we meet the statutory requirements in respect of authorisation according to the Federal Act on Licensing and Oversight of Auditors (RAG) and in respect of independence (Art. 127 CISA and Art. 11 RAG) and that there are no circumstances to compromise our independence.

Zurich, April 4, 2010  
PricewaterhouseCoopers AG

Thomas Romer Audit specialist	Simon Bandi Audit specialist Lead Auditor
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## FACTS & FIGURES

### Characteristics of the Fund

At least two thirds of the assets of the total portfolio (after deduction of cash holdings) are invested in equity-related securities and security rights of selected issuers, which are domiciled or conduct their principal business in the People's Republic of China or in holding companies, whose participations are primarily companies, which are domiciled in the People's Republic of China. Up to one third of the fund's total assets, after deduction of cash holdings can be invested in equity-related securities and security rights and money market instruments of global issuers.

The net income of the fund is distributed to the unit holders once a year at the end of April.

From the management fees there are remittances to be effected for the distribution of the mutual fund (retrocommission on unitholdings) to distributors and portfolio managers. Institutional investors who hold units of the mutual fund for third parties are entitled to receive a reimbursement from the management fees.

### Organization

#### Fund Management

Falcon Fund Management (Switzerland) Ltd.  
Hochbordstrasse 3, CH-8600 Dubendorf-Zurich

#### Custodian and Paying Office

Falcon Private Bank Ltd.  
Pelikanstrasse 37, CH-8021 Zurich  
www.falconpb.com

#### Auditor

PricewaterhouseCoopers Ltd.  
Birchstrasse 160, CH-8050 Zurich

#### Paying Office

Falcon Private Bank Ltd.  
Pelikanstrasse 37, CH-8021 Zurich

#### Investment Decisions

Investment decisions were delegated to HSZ Limited (Woodbourne Hall, P.O. Box 3162, Road Town, Tortola, British Virgin Islands, www.hszgroup.com) up to March 4, 2010 and as from March 5, 2010 to HSZ (Hong Kong) Limited, Hong Kong, Hong Kong SAR.

#### Securities Code

2682803 (Class USD)  
2682806 (Class CHF)  
2682809 (Class EUR)

### Remarks

The prospectus with the integrated fund contract can be ordered any time and free of charge from the fund management company.

The German text is the sole basis for the authentic interpretation of the report.

A variable commission up to 5% of the net asset value was charged at issuance (can vary depending on the distribution channel).

The request for the transfer of the asset management from HSZ Limited, British Virgin Islands (BVI) to HSZ (Hong Kong) Limited, Hong Kong, was approved by the SFMSA on March 5, 2010.

### Key Data

	31.12.10	31.12.09	31.12.08
Total Net Asset Value in mio. USD	136.57	86.53	40.84
Units outstanding Class USD	758 560.0220	621 015.8980	625 418.9040
Units outstanding Class CHF	315 699.3260	109 104.5610	116 971.6140
Units outstanding Class EUR	1 986.0000	2 235.0000	2 491.0000
Net Asset Value per unit Class USD	134.78	121.62	56.53
Net Asset Value per unit Class CHF	100.38	100.79	47.85
Net Asset Value per unit Class EUR	129.41	108.70	51.69
Performance Class USD according to the SFA guideline	10.82 %	118.67 %	-56.26 %
MSCI Emerging Markets China USD (PI)	2.32 %	58.80 %	-51.94 %
Performance Class CHF according to the SFA guideline	-0.41 %	113.81 %	-58.95 %
MSCI Emerging Markets China USD (PI)	-7.81 %	54.33 %	-54.50 %
Performance Class EUR according to the SFA guideline	19.05 %	110.29 %	-54.06 %
MSCI Emerging Markets China USD (PI)	9.33 %	54.85 %	-49.38 %

## ANNUAL REPORT

### Review 2010

In the year of 2010, leading central banks around the globe have continued to pursue loose monetary policies. The US Federal Reserve announced a second round of quantitative easing, leading to an unprecedented and artificially low interest rate environment. While the long term impact of the attempt to revive the indebted nations by spurring investment and spending via low interest rates remains unclear, global equities performed solidly under the cheap credit condition.

The growth recovery has been rather dismal so far for many developed economies which are busy with battling the ongoing high unemployment and debt issues. At the other end of the world, China was able to take another year of leap forward. However, inflation was seen to be accelerating. The People's Bank of China has raised interest rates twice and the required reserve ratio for six times, which is in stark contrast to the mature world where a tighter monetary condition is a luxury.

China continued to pull ahead after successfully cooling down the economy in spring 2010. On a seasonally adjusted annualized basis, its GDP grew at 9.2% quarter on quarter in the first quarter and 8.4% in the second. Thereafter, the growth has re-accelerated to 10.0% in the third quarter. The country would likely emerge as the world's second largest economy with a close to 10% growth rate for the full year.

Retail sales and fixed asset investment were once again the key drivers of the development. They rose approximately 18% and 25% respectively in nominal terms. Exports and imports grew 31% and 39% on the back of steady recovery of the external demand and robust growth in the domestic economy. CPI inflation accelerated to 5.1% from a year earlier in November on mounting food inflation.

New lending for 2010 was approximately CNY 7.8 trillion, less than the amount of CNY 9.6 trillion in 2009. In view of the robust growth combined with the heightened inflation, the policy makers have changed their stance on monetary policy from appropriately accommodative to prudent with a view to bringing inflation under control. The monetary condition would be tighter but remain benign for the steady growth of domestic demand in China.

### Stock Market and Investment Policy

2010 was a year of consolidation for Chinese equities after a strong performance in 2009. The MSCI China index gained 2.3% in USD and Hang Seng China Enterprises Index lost 0.8% in HKD in the year 2010. In terms of sector performance, energy and consumer discretionary outperformed while utilities and basic materials underperformed.

HSZ China Fund was up by 10.8% in USD in the reporting period. The best performers were the fast casual restaurant chain operator, Ajisen, the railway equipment manufacturer, Zhuzhou CSR Times, and the miniature acoustic component manufacturer, AAC Acoustic.

Ajisen has been a beneficiary of the Chinese government's endeavor to boost income growth and gained 99%. Ajisen has benefited from the rising low to mid end consumption due to the improving household income while its cost has not been affected significantly by the wage hike and inflation due to the management's stringent cost control. Moreover, strategic alliance signed during the year with property developers, department stores and hypermarket operators has improved the visibility of new store openings.

Zhuzhou CSR Times gained 92%. Its share price has performed strongly particularly in the second half of the year after it reported outstanding first half results. Zhuzhou CSR Times delivered substantial growth in the locomotive business segment and gross margin expansion due to an upgrading product mix. Its in-house supply of insulated gate bipolar transistor modules to CSR's metro trains during the year has drawn investors' attention that Zhuzhou CSR Times has upgraded from merely a train component maker to a high end equipment manufacturer to serve better margins.

AAC Acoustic has benefited from an increasing global demand for higher end products including the speaker boxes, microelectromechanical system microphones and haptic vibrators. While AAC saw an increasing momentum in the smartphone segment with new contract wins, it has successfully penetrated into non-mobile segments including e-books, tablets, media devices and LED TV's, which helps diversify demand risks and capture the next growth drivers. As a result, AAC's product innovation and management ability have attracted investors' interests and the share gained 62%.

The fund performance was dragged by Dongxiang, a sportswear company carrying the Italian brand, Kappa, on uninspiring operating results. However, we remain positive on its strong brand equity and it is trading at an attractive valuation with a single-digit price-to-earnings multiple.

We continue to prefer cash rich, financially sound companies with earnings visibility and look for companies with sound long term economic fundamentals, good management and attractive valuations.

Specifically, we remain positive on consumer companies with exposure to second and third tier cities on the back of the continuing urbanization; companies with exposure to alternative energy, environmental protection and medical reform on the visibility of spending in these areas and property companies with reasonable valuations and sound balance sheets on the long term positive outlook of the strong housing demand.

### Outlook 2011

In 2011, China's challenges are in rising inflation and local policy tightening. We expect China would embrace the challenges and continue the structural process of rebalancing from being the low cost manufacturer for the world to becoming a rich country with deep domestic markets, which would mean a better quality growth.

The Chinese economy is expected to achieve a strong and better quality growth in 2011 together with a higher inflation. Tightening would be inevitable but remain modest, moving from appropriately accommodative to prudent, which is needed for the long term sustainable development. Loan growth would continue to be normalized but the liquidity environment would still be benign to the economy.

Consumption will play an increasing role in terms of contribution to GDP over the medium term on the back of the rising household income, ongoing urbanization and most importantly the huge population of 1.3 billion availing of healthy household balance sheets. Growth of fixed asset investment would be stable given the ongoing rapid development of central and western China and the aggressive rollout of social housing program. Exports are expected to see moderation after a strong growth in 2010 and still subject to the uncertain global recovery. All of these bode well for corporate earnings for the years to come.

Given the strong growth prospects of China and the reasonable valuations, we believe Chinese equity is an attractive investment. Careful selection of quality companies with strong franchise characters and attractive valuations remains the key to achieving a rewarding return for investors in China.

## ANNUAL STATEMENT OF ACCOUNTS

### Statement of Income from January 1 to December 31

	2010 in USD	2009 in USD
<b>Income</b>		
Income from bank receivables at sight	6 625.14	5 057.83
Income from bank receivables at time	3 349.99	3 245.28
Shares and other equity instruments	1 648 746.91	1 057 300.68
Income from stock dividends	65 152.60	179 249.65
Purchase of current income on issue of units	51 077.18	34 112.61
<b>Total Income</b>	<b>1 774 951.82</b>	<b>1 278 966.05</b>
<b>Expenses</b>		
Interest expenses	339.05	548.15
Audit fees	13 770.21	12 912.00
Remunerations according to regulations		
– Fund manager*	1 520 388.11	936 832.45
– Custodian**	191 761.72	113 561.24
Other expenses	19 089.27	27 665.53
Partly transfer of expenses to realized capital gains and losses	-216 757.18	-148 605.05
Payment of current income on redemption of units	3 018.23	33 808.22
<b>Total Expenses</b>	<b>1 531 609.41</b>	<b>976 722.54</b>
<b>Operating Result</b>	<b>243 342.41</b>	<b>302 243.51</b>
Realized capital gains and losses	5 761 758.54	-2 665 330.99
Partly transfer of expenses to realized capital gains and losses	-216 757.18	-148 605.05
<b>Realized Result</b>	<b>5 788 343.77</b>	<b>-2 511 692.53</b>
Not realized capital gains and losses	4 294 558.17	48 827 253.52
<b>Total Result</b>	<b>10 082 901.94</b>	<b>46 315 560.99</b>
<p>* The actual remuneration to the fund management amounts to 1.50 %  ** The actual remuneration to the custodian bank amounts to 0.15 %</p>		
TER class USD	1.71 %	1.74 %
TER class CHF	1.73 %	1.74 %
TER class EUR	1.71 %	1.73 %
Performance fees as a percentage of the average net asset value class USD	0.00 %	0.00 %
Performance fees as a percentage of the average net asset value class CHF	0.00 %	0.00 %
Performance fees as a percentage of the average net asset value class EUR	0.00 %	0.00 %
PTR is calculated on total assets, since PTR on a class level is not meaningful.	34.01 %	104.75 %

## ANNUAL STATEMENT OF ACCOUNTS

### Statement of Assets as of December 31

	2010 in USD	2009 in USD
Bank receivables		
- at sight	4 763 214.65	7 154 898.21
Shares and other equity instruments	127 297 593.26	75 278 664.35
Derivative financial instruments	4 511 896.73	4 382 630.32
Other assets	2 318.79	52 878.65
<b>Total Assets</b>	<b>136 575 023.43</b>	<b>86 869 071.53</b>
Liabilities	-4 707.45	-339 272.21
<b>Total Net Asset Value</b>	<b>136 570 315.98</b>	<b>86 529 799.32</b>

	Klasse USD	Klasse USD
<b>Number of Units Outstanding</b>		
Total as of January 1	621 015.8980	625 418.9040
Units issued in the period under review	163 221.1030	65 350.8250
Units redeemed in the period under review	-25 676.9790	-69 753.8310
Total as of December 31	758 560.0220	621 015.8980
<b>Total Net Asset Value of a Unit in USD</b>	<b>134.78</b>	<b>121.62</b>

	Klasse CHF	Klasse CHF
<b>Number of Units Outstanding</b>		
Total as of January 1	109 104.5610	116 971.6140
Units issued in the period under review	227 464.9950	33 592.9470
Units redeemed in the period under review	-20 870.2300	-41 460.0000
Total as of December 31	315 699.3260	109 104.5610
<b>Total Net Asset Value of a Unit in USD</b>	<b>107.64</b>	<b>97.62</b>
<b>Total Net Asset Value of a Unit in CHF</b>	<b>100.38</b>	<b>100.79</b>

	Klasse EUR	Klasse EUR
<b>Number of Units Outstanding</b>		
Total as of January 1	2 235.0000	2 491.0000
Units issued in the period under review	1 640.0000	1 537.0000
Units redeemed in the period under review	-1 889.0000	-1 793.0000
Total as of December 31	1 986.0000	2 235.0000
<b>Total Net Asset Value of a Unit in USD</b>	<b>173.47</b>	<b>156.61</b>
<b>Total Net Asset Value of a Unit in EUR</b>	<b>129.41</b>	<b>108.70</b>

During the period under review an unrealized gain of USD 742 166.03 resulted from derivative financial instruments (warrants).

### Off-Balance Sheet Transactions as of December 31, 2010

#### Details of the Volume of open Contracts for derivative Financial Instruments at the Balance Sheet's Date

Warrants	Quantity	in USD
Merrill Lynch on Daqin Railway Co. Ltd.	821 800	812 102.76
Merrill Lynch on Ping An In Grp.	49 000	409 738.00
Merrill Lynch on Qingdao Haier Co.	797 454	3 290 055.97

	Market Risk in USD	Net Asset Value in %	Currency Risk in USD	Net Asset Value in %
<b>Total Risk of derivative Financial Instruments</b>	<b>4 511 896.73</b>	<b>3.30</b>	<b>0.00</b>	<b>0.00</b>

#### Credit Risk

The investment fund does not hold investments, which contain a credit risk.

No loans have been granted nor have securities been lent.

## ANNUAL STATEMENT OF ACCOUNTS

### Changes of the Total Net Asset Value (Art. 75 CISO-SFMSA)

	2010 in USD
<b>Total Net Asset Value as of January 1</b>	<b>86 529 799.37</b>
Units issued	45 737 063.88
Units redeemed	-5 779 449.21
Realized capital gains and losses	5 545 001.36
Operating result	243 342.41
Unrealized capital gains and losses	4 294 558.17
<b>Total Net Asset Value according to the Statement of Assets as of December 31</b>	<b>136 570 315.98</b>
<b>Thereof Class USD</b>	<b>102 242 395.15</b>
<b>Thereof Class CHF</b>	<b>33 983 412.33</b>
<b>Thereof Class EUR</b>	<b>344 508.50</b>

### Use of Earnings

	Class EUR	Class CHF	2010 in USD Class USD
Balance carried forward of the previous year	1 338.97	47 729.23	453 407.83
Total income for distribution	1 565.58	95 740.86	648 512.00
From which is retained in the reporting period	226.61	48 011.63	195 104.17
Designated income for distribution to the investors	0.00	0.00	0.00
Balance carried forward	1 565.58	95 740.86	648 512.00

## ANNUAL STATEMENT OF ACCOUNTS

### Portfolio Composition as of December 31, 2010

#### Assets

Quantity	Name	Country	Currency	Price	Value in USD	Value in % of Fund Assets
<b>Shares and other Equity Instruments, quoted on Stock Exchange 93.21 %</b>						
<b>Mechanical Engineering and Industrial Equipment</b>					<b>30 377 927.30</b>	<b>22.24</b>
3 229 000	China High Speed Transmission Equipment Group Co. Ltd.	Cayman Islands	HKD	12.04	5 002 958.93	3.66
2 690 000	Dongfeng Motor Group Co. Ltd.	China	HKD	13.40	4 638 627.35	3.40
581 000	Haitian International Holdings Ltd.	Cayman Islands	HKD	8.11	606 358.39	0.44
11 939 000	Lonking Holdings Ltd.	Cayman Islands	HKD	4.25	6 529 640.75	4.78
1 091 400	Weichai Power Co. Ltd.	China	HKD	47.85	6 720 449.12	4.92
1 750 000	Zhuzhou CSR Times Electric Co. Ltd.	China	HKD	30.55	6 879 892.76	5.04
<b>Textiles, Garments and Leather Goods</b>					<b>11 909 559.25</b>	<b>8.72</b>
4 031 000	Anta Sports Products Ltd.	Cayman Islands	HKD	12.34	6 401 184.77	4.69
745 000	Belle International Holdings Ltd.	Cayman Islands	HKD	13.14	1 259 749.06	0.92
9 826 000	China Dongxiang (Group) Co. Ltd.	Cayman Islands	HKD	3.36	4 248 625.42	3.11
<b>Energy and Water Supply</b>					<b>11 688 750.73</b>	<b>8.56</b>
12 529 000	GCL-Poly Energy Holdings Ltd.	Cayman Islands	HKD	2.86	4 611 209.44	3.38
10 930 000	Sound Global Ltd.	Singapore	SGD	0.83	7 077 541.29	5.18
<b>Miscellaneous Consumer Goods</b>					<b>10 704 625.42</b>	<b>7.84</b>
2 645 000	Ports Design Ltd.	Bermuda	HKD	21.45	7 301 050.94	5.35
3 079 000	Vinda International Holdings Ltd.	Cayman Islands	HKD	8.59	3 403 574.48	2.49
<b>Retail Trade and Department Stores</b>					<b>8 375 611.37</b>	<b>6.13</b>
1 823 000	Golden Eagle Retail Group Ltd.	Cayman Islands	HKD	19.16	4 494 843.54	3.29
4 712 000	New World Department Store China Ltd.	Cayman Islands	HKD	6.40	3 880 767.83	2.84
<b>Real Estate</b>					<b>8 226 750.71</b>	<b>6.02</b>
4 447 000	KWG Property Holding Ltd.	Cayman Islands	HKD	5.92	3 387 827.13	2.48
10 054 136	Shui On Land Ltd.	Cayman Islands	HKD	3.74	4 838 923.58	3.54
<b>Food and Soft Drinks</b>					<b>7 588 843.76</b>	<b>5.56</b>
3 406 000	Ajisen (China) Holdings Ltd.	Cayman Islands	HKD	13.06	5 724 271.53	4.19
3 483 000	Uni-President China Holdings Ltd.	Cayman Islands	HKD	4.16	1 864 572.23	1.37
<b>Banks and other Credit Institutions</b>					<b>7 409 477.33</b>	<b>5.43</b>
2 934 649	China Merchants Bank Co. Ltd.	China	HKD	19.62	7 409 477.33	5.43
<b>Insurance Companies</b>					<b>6 754 436.46</b>	<b>4.95</b>
604 000	Ping An Insurance (Group) Company of China Ltd.	China	HKD	86.90	6 754 436.46	4.95
<b>Mining, Coal and Steel</b>					<b>6 118 661.66</b>	<b>4.48</b>
1 458 500	China Shenhua Energy Co. Ltd.	China	HKD	32.60	6 118 661.66	4.48
<b>Electronics and Semiconductors</b>					<b>6 024 064.34</b>	<b>4.41</b>
2 256 000	Aac Acoustic Technologies Holdings Inc.	Hong Kong	HKD	20.75	6 024 064.34	4.41
<b>Building Industry and Building Materials</b>					<b>3 985 430.99</b>	<b>2.92</b>
2 638 000	Shimao Property Holdings Ltd.	Cayman Islands	HKD	11.74	3 985 430.99	2.92
<b>Pharmaceuticals, Cosmetics and med. Products</b>					<b>3 762 000.00</b>	<b>2.75</b>
142 500	Mindray Medical Intl. Ltd.	China	USD	26.40	3 762 000.00	2.75
<b>Financial, Investment and other diversified Companies</b>					<b>2 212 807.72</b>	<b>1.62</b>
2 362 000	Daphne International Holdings Ltd.	Cayman Islands	HKD	7.28	2 212 807.72	1.62
<b>Forestry, Paper and Forest Products</b>					<b>2 158 646.22</b>	<b>1.58</b>
5 464 000	Fook Woo Group Holdings Ltd.	Cayman Islands	HKD	3.07	2 158 646.22	1.58
<b>Total Shares and other Equity Instruments, quoted on Stock Exchange</b>			<b>USD</b>		<b>127 297 593.26</b>	<b>93.21</b>



## ANNUAL STATEMENT OF ACCOUNTS

### Portfolio Composition as of December 31, 2010

#### Assets

Quantity	Name	Country	Currency	Price	Value in USD	Value in % of Fund Assets
<b>Derivative Financial Instruments 3.30 %</b>						
<b>Warrants</b>						
821 800	Warrants Merrill Lynch on Daqin Railway Co. Ltd.	Netherlands Antilles	USD	0.99	812 102.76	0.59
49 000	Warrants Merrill Lynch on Ping An In Grp.	Netherlands Antilles	USD	8.36	409 738.00	0.30
797 454	Warrants Merrill Lynch on Qingdao Haier Co.	Netherlands Antilles	USD	4.13	3 290 055.97	2.41
<b>Total Derivative Financial Instruments</b>			<b>USD</b>		<b>4 511 896.73</b>	<b>3.30</b>
<b>Total Investments</b>			<b>USD</b>		<b>131 809 489.99</b>	<b>96.51</b>
<b>Bank Receivables<sup>1</sup></b>						
- at sight			USD		4 763 214.65	3.49
<b>Other Assets</b>			<b>USD</b>		<b>2 318.79</b>	<b>0.00</b>
<b>Total Fund Assets</b>			<b>USD</b>		<b>136 575 023.43</b>	
<b>Liabilities</b>			<b>USD</b>		<b>-4 707.45</b>	<b>0.00</b>
<b>Total Net Asset Value</b>			<b>USD</b>		<b>136 570 315.98</b>	<b>100.00</b>

<sup>1</sup> Deposits are protected by deposit insurances up to CHF 100 000.00 or countervalue.

	Currency	Rate
<b>Exchange Rates to USD</b>		
Hong Kong Dollar	HKD	0.1287
Singapore Dollar	SGD	0.7802

## ANNUAL STATEMENT OF ACCOUNTS

### Changes in Securities Holdings from January 1 to December 31, 2010

Name	Currency	Quantity 01.01.10	Quantity Bought*	Quantity Sold*	Quantity 31.12.10
<b>Bermuda</b>					
Esprit Holdings Ltd.	HKD	0	47 000	47 000	0
Ports Design Ltd.	HKD	1 520 500	1 178 000	53 500	2 645 000
<b>China</b>					
China Merchants Bank Co. Ltd.	HKD	1 978 450	956 199	0	2 934 649
China Merchants Bank Co. Ltd. (rights)	HKD	0	257 199	257 199	0
China Shenhua Energy Co. Ltd.	HKD	763 000	695 500	0	1 458 500
Dongfeng Motor Group Co. Ltd.	HKD	0	3 098 000	408 000	2 690 000
Mindray Medical Intl. Ltd.	USD	85 700	56 800	0	142 500
Ping An Insurance (Group) Company of China Ltd.	HKD	416 000	188 000	0	604 000
Weichai Power Co. Ltd.	HKD	464 200	875 200	248 000	1 091 400
Zhuzhou CSR Times Electric Co. Ltd.	HKD	2 107 000	586 000	943 000	1 750 000
<b>Germany</b>					
ZhongDe Waste Technology AG	EUR	56 076	0	56 076	0
<b>Hong Kong</b>					
Aac Acoustic Technologies Holdings Inc.	HKD	936 000	1 320 000	0	2 256 000
<b>Cayman Island</b>					
Ajisen (China) Holdings Ltd.	HKD	3 367 000	382 000	343 000	3 406 000
Anta Sports Products Ltd.	HKD	2 620 000	2 118 000	707 000	4 031 000
Belle International Holdings Ltd.	HKD	0	745 000	0	745 000
China Dongxiang (Group) Co. Ltd.	HKD	0	9 826 000	0	9 826 000
China High Speed Transmission Equipment Group Co. Ltd.	HKD	1 627 000	1 639 000	37 000	3 229 000
China Lilang Ltd.	HKD	0	1 194 000	1 194 000	0
Daphne International Holdings Ltd.	HKD	0	2 362 000	0	2 362 000
Evergreen International Holdings Ltd.	HKD	0	85 000	85 000	0
Fook Woo Group Holdings Ltd.	HKD	0	5 464 000	0	5 464 000
GCL-Poly Energy Holdings Ltd.	HKD	0	12 529 000	0	12 529 000
Golden Eagle Retail Group Ltd.	HKD	1 693 000	975 000	845 000	1 823 000
Haitian International Holdings Ltd.	HKD	0	709 000	128 000	581 000
Inspur Internatinal Ltd.	HKD	8 425 000	0	8 425 000	0
KWG Property Holding Ltd.	HKD	2 600 000	1 847 000	0	4 447 000
Li Ning Co. Ltd.	HKD	842 000	0	842 000	0
Lonking Holdings Ltd.	HKD	5 094 000	9 357 000	2 512 000	11 939 000
New World Department Store China Ltd.	HKD	2 529 000	2 183 000	0	4 712 000
Shimao Property Holdings Ltd.	HKD	1 737 000	976 500	75 500	2 638 000
Shui On Land Ltd.	HKD	6 604 550	3 449 586	0	10 054 136
Uni-President China Holdings Ltd.	HKD	3 629 000	540 000	686 000	3 483 000
Vinda International Holdings Ltd.	HKD	2 541 000	586 000	48 000	3 079 000
VisionChina Media Inc.	USD	92 798	0	92 798	0
<b>Singapore</b>					
Sound Global Ltd.	SGD	9 852 000	3 084 000	2 006 000	10 930 000

\* Include purchases and sales as well as corporate actions.

## EXPLANATORY NOTES TO THE ANNUAL REPORT

### Basics for the valuation as well as for the calculation of the net asset value

1. The mutual fund's net assets and the proportion accounted for by each individual class are calculated at current value at the end of the accounting year and on each day on which units are issued or redeemed, in USD. The fund's assets will not be calculated on days when the stock exchanges/markets in the fund's main investment countries are closed (e.g. bank and stock exchange holidays).

2. In the case of listed investments or those traded on another regulated market open to the public, the current value corresponds to the prices paid on the main market. Other investments or investments for which no current prices are obtainable shall be valued at the price that would probably be obtained upon a diligent sale at the time of appraisal. In this case the Fund Manager shall apply reasonable, recognized and auditable valuation models and principles for calculating the current value.

3. The value of money market instruments which are not traded on a stock exchange or other regulated market open to the public is determined as follows: starting from the net acquisition price and keeping the investment yield (calculated therefrom) constant, the valuation price of such investments is gradually aligned with the redemption price. If there are significant changes in the market conditions, the valuation principles for the individual investments will be adjusted in line with the new market returns. If there is no current market price in such instances, the calculations are as a rule based on the valuation of money market instruments with the same characteristics (quality and domicile of the issuer, issuing currency, term to maturity).

4. Bank deposits are valued on the basis of the amount due plus accrued interest. If there are significant changes in the market conditions or credit ratings, the valuation principles for time deposits will be adjusted in line with the new situation.

5. The net asset value of a unit in a particular class is obtained by calculating the share of that class in the market value of fund assets attributable to the class, subtracting any liabilities of the fund attributable to that unit class, and dividing the result by the number of units of that class in circulation. It is rounded up or down to the nearest 1/100 of the currency of account.

6. The share of the market value of the fund's net assets (assets minus liabilities) attributable to the respective classes of units is determined for the first time at the initial issue of more than one class of units (if this occurs simultaneously) or the initial issue of a further class of units. The calculation is made on the basis of the assets accruing to the fund for each class of units. The share is recalculated when one of the following events occurs:

a) upon the issuance and redemption of units;  
b) on the key date for distributions, provided (i) such distributions relate only to individual classes of unit (distribution classes) or provided (ii) the distributions made by various classes of unit differ with regard to the percentage of their respective net asset values or provided (iii) differing costs or commissions, calculated as a percentage of the distribution

itself, are to be charged on the distributions of different classes of unit;

c) when the NAV is calculated, as part of the allocation of liabilities (including due or accrued costs and commissions) to the various classes of unit, provided that the liabilities of the various classes of unit are different when expressed as a percentage of the respective NAV, especially if (i) different commission rates are applied for the various classes of unit or if (ii) class-specific costs are charged;

d) when the net asset value is calculated, as part of the allocation of income or capital gains to the various unit classes, provided the income or capital gains stem from transactions made solely in the interests of one unit class or in the interests of several unit classes but disproportionately to their share of the fund's net assets.

### Soft Commission Agreements

For the period of January 1, to December 31, 2010 no soft commission agreements were concluded in the name of Falcon Fund Management (Switzerland) Ltd. nor were soft commissions received.