

Newsletter July 2009

- China's growth accelerates in second quarter
- Inspur International is a market leader in IT services industry
- Li Ning's acquisition amplifies development in badminton category
- Shimao Property snaps up land in Xiamen

Figures as of July 31, 2009

Net Asset Value

Per Share: USD 108.01, CHF 94.06, EUR 98.26
Market Capitalization: USD 76.0 million

Share Price in USD since Nov 17, 2006



Performance

	July	YTD	1Y	Nov 17, 06
USD-Class	12.77%	91.07%	14.84%	8.01%
CHF-Class	13.03%	96.57%	19.12%	(5.94%)
EUR-Class	12.46%	90.09%	27.15%	(1.74%)

Largest Holdings

China Merchants Bank	7.2%
Epure International Ltd	6.6%
Lonking Holding Ltd	6.4%
Shui On Land	6.2%
Shimao Property	5.5%
Zhuzhou CSR	5.3%

Exposure

Industrials	34.8%
Consumer Discretionary	25.5%
Financials	22.7%
Energy	3.8%
Consumer Staples	2.3%
Information Technology	1.8%
Cash	9.1%

Chinese economy staged a strong acceleration, with the real growth standing at 7.9 percent year on year in the second quarter from the trough of 6.1 percent in the first quarter. Although exports continued its decline, the pace has been decelerating and more than offset by the strong growth in the fixed asset investment (FAI), which grew 34 percent in the first half. While the government lead investment continues to be the main driver of the growth, investment from private real estate developers is making an ever greater contribution to the growth of the FAI. Under the backdrop of the still weak external demand, the Chinese government is not likely to implement drastic tightening measures in the near term.

The fund initiated a position in Inspur International, a leading IT services provider in China, which also engages in manufacturing and trading of IT products. Inspur's 2008 full year revenue jumped 100 percent year on year to HKD 1'841 million, mostly attributed to the integrated IT services business which has increased by 6 folds to HKD 1'234 million as compared to 2007. Gross profit margin saw a remarkable improvement from 10 percent to 28 percent due to its business transformation. Inspur is a market leader and owns 25 percent of the tax-control IT services market. With the enhanced product portfolio, rapid growing demand and dominant market shares, we believe Inspur International is an attractive investment.

Li Ning announced acquisition of Kason Sports for a consideration of CNY 165 million, 4 percent of the total asset at the end of 2008. The Kason brand was established in 1991 and is one of the top 3 badminton equipment brands in China. The acquisition formed an integral part of the company's strategy of expanding into the badminton category. The acquisition provides synergies in research & development and marketing resources, enabling Li Ning to gain market share in the badminton business. Moreover, the company signed a sponsorship agreement with the Chinese National Badminton Team, further enhancing Li Ning's badminton brand image.

Shimao Property acquired a residential site in Xiamen at CNY3.02 billion. The site, covering 137'000 square metres, is in the Lakeside Reservoir area, one of the upmarket residential sections of the city, and will be developed into a high-end residential-retail complex with a gross floor area of approximately 453'000 square metres. The land cost is estimated to be CNY 6'666 per square metre, compared to the selling prices from CNY 18'000 to 20'000 per square metre fetching in the upmarket in Xiamen. As of June 20, the company has secured contract sales of CNY 13 billion, amounting to 76 per cent of its CNY 17 billion target for the year.

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 an independent investment management company based in Hong Kong and is majority owned by its partners. The team has managed Asian equity portfolios since 1994. HSZ Group acts as a bridge for European capital invested in Asia and has a long-standing experience in serving institutional and private clients in Europe.

This publication is for information purposes only and is not to be regarded as an offer for the purchase or sale of the fund's units. The fund may not be marketed, either directly or indirectly, in the United States of America or sold to US persons. The value of units can fall as well as rise. The information provided in this document has been compiled with due care and attention by HSZ Group and its partners. However, HSZ Group offers no undertaking or guarantee as to accuracy, reliability or completeness of the information provided. Under no circumstances (including but not limited to negligence) shall HSZ Group be liable for any losses or consequential damage resulting from the use of this document.

Characteristics

Fund Name	HSZ China Fund
Structure	Open-end Swiss investment fund, "Kategorie: Übrige Fonds"
Approved	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	Available upon request
Publication of NAV (daily)	www.hszgroup.com www.falconpb.com Neue Zürcher Zeitung (NZZ) HSZCHIFD, HSZCHEUR, HSZCFCHF
Bloomberg	Subscription
Monthly Reports	Falcon Fund Management (Switzerland) Ltd.
Fund Administrator	Falcon Private Bank Ltd.
Custodian Bank	HSZ Group
Investment Manager	Falcon Fund Management (Switzerland) Ltd.
Main Distributor	PricewaterhouseCoopers Ltd.
Auditors	All Banks
Subscriptions	

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