

Newsletter September 2009

- China celebrates its nation's 60th anniversary
- Shimao raises sales target to CNY 20 billion
- China High Speed Transmission's wind gearbox delivery on track
- Ajisen's stringent cost control effect kicks in

Figures as of September 30, 2009

Net Asset Value

Per Share: USD 104.21, CHF 86.36, EUR 91.60
Market Capitalization: USD 70.6 million

Share Price in USD since Nov 17, 2006



Performance

	September	YTD	1Y	Nov 17, 06
USD-Class	4.17%	84.34%	58.64%	4.21%
CHF-Class	1.47%	80.48%	49.64%	(13.64%)
EUR-Class	1.64%	77.21%	56.37%	(8.40%)

Largest Holdings

China Merchants Bank	6.7%
Zhuzhou CSR	6.0%
Epure International Ltd	5.7%
Shui On Land	5.5%
Lonking Holdings Ltd	5.2%
Ports Design	5.2%

Exposure

Industrials	32.7%
Consumer Discretionary	28.4%
Financials	22.6%
Energy	4.3%
Consumer Staples	2.7%
Information Technology	1.6%
Cash	7.8%

China celebrated its nation's 60th anniversary on October 1, with a spectacular parade showed to the world. This signified the rising national strength over the past six decades, during which the Chinese population have been enjoying increasing prosperity especially after the economic reforms launched in 1978. China has been building its own country with impressively high economic growth while keeping its fiscal position in a good shape, which enables it to maintain steady growth despite the global economic crisis and take the opportunity to accelerate to the adjustment of the economy to a more domestic demand driven mode.

Shimao's turnover rose 170 percent to CNY 4.96 billion for the first half this year. Excluding one-off gains and non-cash items, underlying profit jumped more than 16 times to CNY 384 million from CNY 23 million on a sharp increase in property sales. Contracted sales for the first eight months amounted to CNY 16.4 billion, representing 96 percent of the company's previous full year target of CNY 17 billion. The company raised the target sales to CNY 20 billion. Net gearing improved from 66 percent at the end of 2008 to 39 percent as at June 30, 2009, making room for future land acquisition when opportunities arise

China High Speed Transmission's turnover for the first half of 2009 rose 50 percent year on year to CNY 2'033 million, to which a new product, high speed railway gearbox, contributed CNY 18 million. Net profit remained flat year on year at CNY 254 million due to one-off items related to convertible bonds and equity swap. Stripping off these exceptional items, recurring net profit rose 38 percent to CNY 333 million. The company delivered 2'100 MW wind gearbox in the first half, on track to meet its full year target of 6'000 MW as the first half normally contributes one third of its annual sales. 2010 target remains unchanged at 9'000 MW.

Ajisen posted a net profit of HKD 133 million for the first half of 2009, up by 12 percent year on year. Turnover rose 24 percent to HKD 937 million. Stringent cost control measures drove gross margin to expand from 68.1 percent to 68.9 percent. As at June 30, 2009, Ajisen has 350 stores, a net increase of 35 stores since the end of 2008, with the majority in eastern and southern of China. The company will introduce a new brand to target the high spending market with the first store opening in the fourth quarter of 2009 in Hong Kong.

General Information

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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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.

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