

Newsletter October 2009

- China grows at a robust 8.9 percent in third quarter
- Epure wins contracts locally and overseas
- New World Department Store rebranding program enhances store image
- Weichai Power sees strong third quarter results

Figures as of October 30, 2009

Net Asset Value

Per Share: USD 110.21, CHF 90.00, EUR 95.62
Market Capitalization: USD 74.7 million

Share Price in USD since Nov 17, 2006



Performance

	October	YTD	1Y	Nov 17, 06
USD-Class	5.76%	94.96%	134.14%	10.21%
CHF-Class	4.21%	88.09%	108.14%	(10.00%)
EUR-Class	4.39%	84.99%	101.94%	(4.38%)

Largest Holdings

China Merchants Bank	7.0%
Epure International Ltd	5.7%
Shui On Land	5.6%
Zhuzhou CSR	5.4%
Ports Design	4.7%
Shimao Property	4.6%

Exposure

Industrials	30.8%
Consumer Discretionary	27.0%
Financials	24.8%
Energy	4.2%
Consumer Staples	4.2%
Information Technology	1.6%
Cash	7.4%

Chinese economy grew at a robust 8.9 percent in real terms in the third quarter this year, compared to 7.9 percent in the second quarter. Quarter on quarter growth was estimated to be 9.6 percent on a seasonally adjusted and annualized basis. While retail sales and fixed asset investment remained the key growth drivers, trade data were showing more signs of recovery. The decline in exports narrowed to 15.2 percent year on year in September from 23.4 percent in August, while imports declined only by 3.5 percent as compared to 17 percent in August. The recovery pace was robust and on track to deliver the market estimated growth of 8.4 percent for the full year of 2009.

Epure has won a landmark contract to operate and manage eight municipal wastewater treatment plants in Hainan, which was keenly sought after by more than 20 reputable players, demonstrating its technical and operating competencies. The contract is on a five-year term and is the first of its kind in China where the operation contract was awarded for multiple municipal plants under one single package. The contract is worth approximately CNY 124 million and expected to contribute earnings from 2010. Previously Epure also won a sizeable design and construction contract worth CNY 562 million in Saudi Arabia, a maiden venture into the overseas market.

The fund initiated a position in New World Department Store (NWDS), the second largest nationwide department store operator in China. NWDS has established an extensive retail network of 33 stores covering 17 cities. Revenue for the full fiscal year ended June 30, 2009 increased by 16 percent year on year to HKD 1'721 million. Recurring net profit grew 7 percent to HKD 498 million. Since September 2009, NWDS has initiated a rebranding program which repositions all stores as either "Fashion Style" or "Living Style". With its national footprint, a strong management team and brand recognition, we believe NWDS is an attractive investment.

Weichai engine sales volume and truck sales volume for the third quarter 2009 jumped 46 percent and 25 percent year on year respectively. Gross margin improved 8.3 percentage points year on year due to an increase in the revenue mix towards the engine segment, which enjoys better margins and reduction of steel prices. Net profit came in at CNY 1'160 million, leaped 225 percent year on year and net margin improved by 7 percentage points. The strong results were driven by demand recovery, better margins and a lower effective tax rate.

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)
Bloomberg	HSZCHIFD, HSZCHEUR, HSZCFCHF
Monthly Reports	Subscription
Fund Administrator	Falcon Fund Management (Switzerland) Ltd.
Custodian Bank	Falcon Private Bank Ltd.
Investment Manager	HSZ Group
Main Distributor	Falcon Fund Management (Switzerland) Ltd.
Auditors	PricewaterhouseCoopers Ltd.
Subscriptions	All Banks

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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. His investment team has been managing Asian equity portfolios since 1994.

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