

## Newsletter December 2009

- China's exports resume strong positive growth
- Epure seeks dual listing in Hong Kong
- KWG delivers remarkable sales in 2009
- Weichai records robust sales growth momentum

Figures as of December 31, 2009

### Net Asset Value

Per Share: USD 121.62, CHF 100.79, EUR 108.70  
Market Capitalization: USD 86.5 million

### Share Price in USD since Nov 17, 2006



### Performance

	December	YTD	1Y	Nov 17, 06
USD-Class	3.33%	115.14%	115.14%	21.62%
CHF-Class	6.69%	110.64%	110.64%	0.79%
EUR-Class	8.12%	110.29%	110.29%	8.70%

### Largest Holdings

China Merchants Bank	6.0%
Epure International Ltd	6.0%
Ports Design	5.5%
Zhuzhou CSR	5.0%
China High Speed	4.6%
Anta Sports Products Ltd	4.5%

### Exposure

Consumer Discretionary	28.3%
Industrials	28.2%
Financials	21.3%
Consumer Staples	8.6%
Energy	4.3%
Information Technology	1.4%
Cash	7.9%

China's exports grew by 17.7 percent in December 2009 from a year earlier, the first increase since November 2008, and imports jumped 56 percent compared to 27 percent in November. Despite being on a low base in late 2008, exports grew strongly on a seasonally adjusted basis from the November level and the value of exports to major markets has grown markedly from the pre-crisis level. Imports of machinery, steel products and motor vehicles also saw strong growth, indicating the strong domestic demand. China shipped USD 1.07 trillion of exports in the first 11 months of 2009, compared with Germany's USD 1.05 trillion over the same period and is likely to overtake Germany as the world's largest exporter of goods in 2009.

Epure announced that it is planning a dual listing in Hong Kong with the intention to raise capital for future expansion and diversify its investor base. It proposed to issue 430 million new shares through a global offering with Morgan Stanley Asia as the sole sponsor and coordinator, subject to approvals of the shareholders and stock exchanges. Majority of the proceeds to be raised would be earmarked for expansion into build-operate-transfer projects and research and development purposes. With access to Hong Kong's capital market, it would provide Epure an additional funding channel and improve the valuation of the company.

KWG recorded pre-sales of CNY 7.6 billion for the full year of 2009, 3 times the sales in 2008 and 50 percent more than the target of CNY 5 billion. Strong sales were seen across all regions. Notably in Guangzhou, the CBD project, The Apex, recorded sales of CNY 1.1 billion. Remarkably, the high-end project, The Sapphire, demonstrated a very strong pick-up with 3 phases launched where average selling price was raised from CNY 6'600 to CNY 10'000 per square metre. As a result of the strong sales performance in 2009, the lock-in rate for 2010 deliveries is high with more than 60 percent of the 2010 target being carried forward from the pre-sales. 4 pieces of land were bought in 2009 and the current land bank stands at 7 million square metres of gross floor area.

Weichai saw robust sales momentum in the fourth quarter of 2009. Weichai sold 99'500 units of engines, 170'000 units of gear boxes and 19'000 units of heavy trucks in the fourth quarter, increased by 243 percent, 258 percent and 209 percent year on year respectively. The strong sales were largely due to an upturn in the downstream demand, including construction, mining, infrastructure, property and logistics amid macro recovery. Looking forward, the company sees a fairly busy production schedule in the first quarter of 2010.

## 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)	<a href="http://www.hszgroup.com">www.hszgroup.com</a> <a href="http://www.falconpb.com">www.falconpb.com</a> 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 a Hong Kong based independent investment management company. Its investment team has been managing Asian equity portfolios since 1994.

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