HSZ China Fund

Newsletter June 2010

- China allows flexibility in Renminbi exchange rate
- Fook Woo strengthens franchise power by leveraging on vertically integrated model
- Dongfeng sales keep on track for the first half of 2010
- KWG Property on track to deliver full year sales target

Figures as of June 30, 2010

Net Asset Value

Per Share: USD 114.16, CHF 99.19, EUR 120.26
Market Capitalization: USD 88.4 million

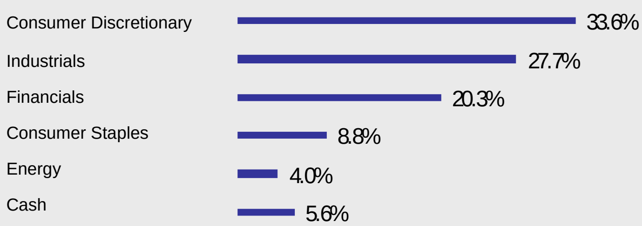
Share Price in USD since Nov 17, 2006

Performance

	June	YTD	1Y	Nov 17, 06
USD-Class	+1.6%	(6.1%)	+19.2%	+14.2%
CHF-Class	(4.8%)	(1.6%)	+19.2%	(0.8%)
EUR-Class	+2.4%	+10.6%	+37.6%	+20.3%

Largest Holdings

Exposure



The People's Bank of China announced that the Renminbi exchange rate will exit the peg to the USD, which had been in place since mid-2008 as part of the anti-crisis arrangement. While the appreciation is expected to be gradual with no large scale one-off revaluation, the policy move would help contain the inflationary pressure, lower the risk of trade protectionism and more importantly rebalance the economy towards the domestic demand. In June, the new lending in China was CNY 603 billion, with the growth of the outstanding loan registering at 18.2 percent year on year. The total loan creation in the first half this year was CNY 4.6 trillion, 62 percent of the full year target set by the government early this year.

The fund initiated a position in Fook Woo Group, a leading vertically integrated waste paper chain collector and recycler in Hong Kong and PRC. The company currently operates five waste paper collection stations in Hong Kong and processes waste paper at the production base in Huizhou, PRC. The major products and services are recovered paper, tissue paper products, recycled greyboard and confidential materials destruction services. For the year ended March 31, 2010, revenue was HKD 1'423 million, up by 30 percent year on year. Net profit came in at HKD 291 million, increased by 69 percent year on year, and net margin rose substantially by 4.8 percentage points to 20.5 percent. With its distinctive vertically integrated model, stable costs and strong distribution network, we believe Fook Woo is an attractive investment.

Dongfeng Motor sold 161'940 units of vehicles in June 2010, up by 1.3 percent month on month and 39 percent year on year. Passenger vehicle unit shipment was 114'957 units, up by 31 percent year on year, but lower than the 39 percent year on year growth in May. 46'983 units of commercial vehicles were sold, up by 61 percent year on year, but decelerated from the 68 percent year on year growth in May. Accumulated sales for the first half of 2010 were 971'977 units of vehicles, increased by 59 percent year on year.

KWG Property announced that contracted sales of CNY 600 million were achieved in June. For the first six months this year, the total sales amounted to CNY 6.5 billion, representing 65 percent of the full year target set by the company. The average selling price (ASP) was approximately CNY 10'000 per square metre, compared to the CNY 8'061 booked in the financial year of 2009. Its Chengdu Cosmos project continued to perform well, with ASP of CNY 21'000 per square metre, the highest in Chengdu. Given the plan to launch several new projects in the coming months, it is on track to deliver its full year sales target of CNY 10 billion.

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