HSZ China Fund

Newsletter July 2010

- China’s growth moderates in the second quarter
- Shui On Land to accelerate project launches
- Golden Eagle strategic acquisition in Anhui expedites expansion plan
- Ajisen sees momentum in same store sales growth recovery

Figures as of July 30, 2010

Net Asset Value

Per Share: USD 122.28, CHF 102.07, EUR 120.35

Market Capitalization: USD 99.3 million

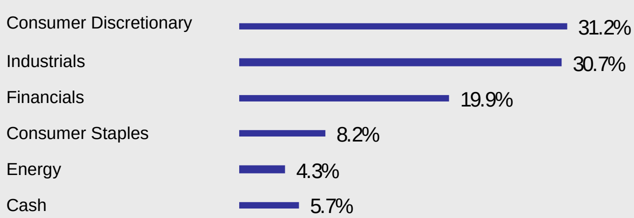
Share Price in USD since Nov 17, 2006

Performance

	July	YTD	1Y	Nov 17, 06
USD-Class	+7.1%	+0.5%	+13.2%	+22.3%
CHF-Class	+2.9%	+1.3%	+8.5%	+2.1%
EUR-Class	+0.1%	+10.7%	+22.5%	+20.4%

Largest Holdings

Exposure



China’s real GDP growth was at a robust level of 10.3 percent year on year in the second quarter this year, despite decelerating from 11.9 percent in the preceding period. The moderation was mainly driven by the gradual stimulus exit and the lapse of the low base effect. Fixed asset investment moderated a tad to a growth of 25.5 percent for the first six months, from 26.1 percent for the first quarter. Nominal retail sales came in at 18.3 percent year on year in June, a reflection of the resilient consumer sentiment. CPI inflation moderated to 2.9 percent year on year in June, as compared to 3.1 percent in May. In view of the receding inflation pressure and the moderation in activity growth, the policy stance is likely to be loosened over the rest of the year.

Shui On Land announced that they achieved CNY 1.5 billion contracted sales with a total gross floor area (GFA) of 101’000 square metres for the first half this year. There were only two major launches during the period, namely, Wuhan Tiandi and Chongqing Tiandi, together with sales of the remaining units in other existing projects. In the second half of the year, new launches will commence on six projects, with the estimated total available for sale GFA being 300’000 square metres. The company has recently opened the sales centre in preparation for the maiden launch in Foshan Lingnan Tiandi, which is expected to be well received by the buyers, given its prime location in the city centre and proximity to the train stations.

Golden Eagle (GE) has acquired a 100 percent equity interest in Anhui Ruijing Commercial Company Limited at a consideration of CNY 267 million. Anhui Ruijing operates two mid-high end department stores in Heifei City, Anhui Province. Anhui Province is neighbouring to GE’s home market, Jiangsu. The acquisition, together with GE’s Anhui Huaibei Store and Heifei Flagship Store, which are about to commence operation, enables GE to quickly gain critical mass in Anhui Province, reduce execution risks of expansion and further expedite GE’s footsteps of entering the Anhui market. Going forward, GE will continue to expand its network in the neighbouring provinces actively while fostering its leading position in Jiangsu Province.

Aijsen saw a strong recovery in the same store sales growth from a negative growth in 2009 and a low single digit in the first quarter of 2010 to a mid- single digit in the second quarter, partly due to the menu price hike. Ajisen has added more than 50 stores in the first half of 2010 and on track to open 120 new restaurants this year as planned. 70 to 80 percent of its new restaurant openings are with strategic partners such as Wal-Mart, Carrefour, Lianhua, New World Department Store and RT-mart.

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 a Hong Kong based independent investment management company. Its investment team has been managing Asian equity portfolios since 1994.

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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