Newsletter August 2010

- Lonking raises target after strong sales in first half
- AAC Acoustic bears fruit on its smartphone focus
- Ports Design store rationalization to conclude by end of this year
- Ajisen effective cost control impact kicks in

Figures as of August 31, 2010

Net Asset Value

Per Share: USD 123.16, CHF 101.33, EUR 125.46
Market Capitalization: USD 100.0 million

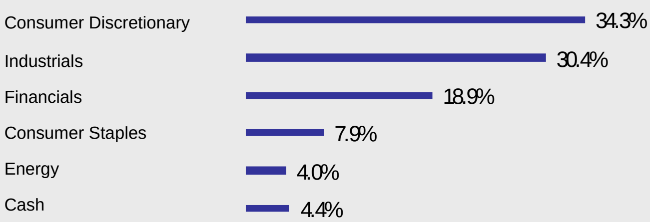
Share Price in USD since Nov 17, 2006

Performance

	August	YTD	1Y	Nov 17, 06
USD-Class	+0.7%	+1.3%	+23.1%	+23.2%
CHF-Class	-0.7%	+0.5%	+19.1%	+1.3%
EUR-Class	+4.2%	+15.4%	+39.2%	+25.5%

Largest Holdings

Exposure



Lonking's recurring net profit grew 165 percent year on year to CNY 809 million for the first half this year. Revenue increased by 84 percent to CNY 6.6 billion, driven by the encouraging sales across the board with excavators growing strongly by 175 percent to CNY 1'072 million. Operating margin improved by 4.5 percentage points to 16.8 percent on higher selling prices, economies of scales and increasing contribution from its higher margin excavator business. Management revised its sales target for its major product, wheel loaders, from 33'000 units to 38'000 implying more than 50 percent growth for the full year and is confident to achieve the targets set at the beginning of the year for the other products.

AAC's turnover for the first half this year increased by 61 percent year on year to CNY 1'334 million. Net profit jumped 97 percent to CNY 382 million. Gross margin improved by 2.1 percentage points to 44.1 percent on better production efficiency and higher smartphone contribution. Contribution from Apple increased from 2 percent of the sales in the first quarter to 8 percent in the second quarter. Management expects it to become the second largest customer for the full year 2010 and contribute more than 15 percent of the company's sales. After the success of securing Apple as its customer, AAC has almost all the major smartphone players in its customer portfolio.

Ports Design's turnover for the six months ended June 30, 2010 was up by 8 percent year on year to CNY 789 million. Gross profit increased by 5.9 percent year on year to CNY 631 million. Net profit came in at CNY 208 million, with net margin rising to 30.6 percent from 28.6 percent for the same period in 2009 due to higher margin retail segment contribution. Same store sales growth accelerated to 15.5 percent, driven by a 5 percent average selling price (ASP) increase. The company has recently increased the ASP by 7 to 8 percent for the second half of 2010. It expects store closures due to the rationalization program which was started back in 2008 to conclude by the end of this year and targets to have 30 net store openings in the second half and 60 openings in 2011.

For the first half of 2010, Ajisen's turnover increased by 27 percent year on year to HKD 1'188 million. Gross profit margin improved by 0.2 percentage points year on year to 26 percent despite rising input costs as it raised the menu price by 2 to 3 percent in April and adopted effective cost control measures. Net profit came in at HKD 193 million, up by 45 percent year on year. Same store sales growth recovered from negative 2.8 percent during the same period last year to 6.8 percent this year. Ajisen added 50 restaurants to 450 in the first half of 2010, and is on track to meet the full year target of 120 new openings.

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.