HSZ China Fund

Newsletter September 2010

- China's PMI shows stronger than expected improvement
- Sound Global announces a potential sizable contract in Jiangsu
- New World Department Store sales momentum picks up
- KWG delivers solid growth and high earnings visibility

Figures as of September 30, 2010

Net Asset Value

Per Share: USD 139.96, CHF 109.81, EUR 132.63

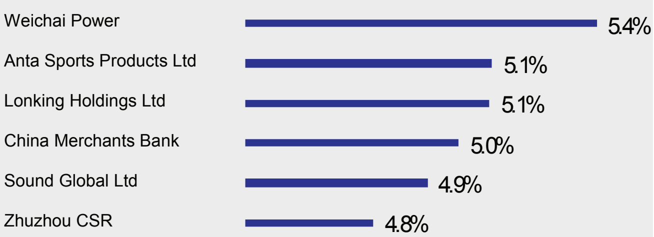
Market Capitalization: USD 114.5 million

Share Price in USD since Nov 17, 2006

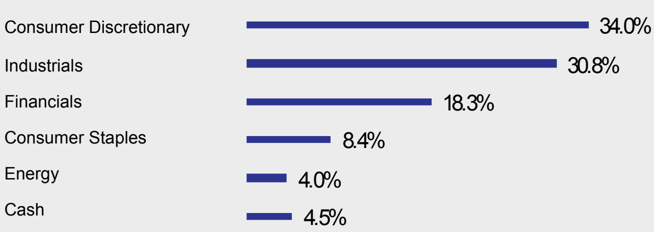
Performance

	September	YTD	1Y	Nov 17, 06
USD-Class	+13.6%	+15.1%	+34.3%	+40.0%
CHF-Class	+8.4%	+8.9%	+27.2%	+9.8%
EUR-Class	+5.7%	+22.0%	+44.8%	+32.6%

Largest Holdings



Exposure



China's official Purchasing Managers' Index (PMI) rebounded to 53.8 in September, after bottoming out at an 18-month low of 51.2 in July. The reading suggests a better than expected improvement in the activity growth despite the intensifying adjustment to shut down some energy inefficient enterprises. Fixed asset investment remained resilient for the first eight months, growing at 25 percent year on year, helped by the aggressive rollout of the social housing program. Retail sales also came in at an 18 percent growth on strong consumer confidence and robust income growth. CPI inflation continued to edge up to 3.5 percent in August, on rising food prices. Non-food inflation softened to 1.5 percent, compared to 1.6 percent in July.

Sound Global announced that they had signed a Memorandum of Understanding for a Build, Operate and Transfer (BOT) project worth CNY 1.38 billion in Lianyungang City, Jiangsu Province. Upon signing the official contract, the company will build and operate the project for 30 years with wastewater treatment and water supply capacity up to 300'000 tonnes per day, which will significantly boost the contract wins for this year. In September, the company has successfully raised CNY 885 million through issuance of convertible bonds, which would help to fund the expansion of its BOT portfolio. Sound Global also floated its ordinary shares on the Hong Kong Stock Exchange recently, which would provide the company with an additional funding channel and better valuation in the long run.

Revenue of New World Department Store was HKD 1'873 million in the financial year ended June 2010, growing at 8.8 percent year on year. In particular, direct sales increased by 45 percent to HKD 397 million. The commission rate dropped by 90 basis points to 19.4 percent and the gross margin for direct sales improved by 2 percentage points to 25.5 percent. In the reporting period, ladieswear and accessories made up around 57 percent of gross sales revenue. Operating margin improved from 40.4 percent to 43.4 percent on effective control of advertising and promotion expenses while efficiently enhanced the brand image and VIP services. As of June 2010, the group operates 25 self-owned stores and 10 managed stores with a total gross floor area of about 1'174'530 square metres.

KWG's revenue amounted to CNY 2'342 million for the first half of 2010, jumped 160 percent year on year, primarily due to the increase in the total gross floor area delivered in sales of properties. Land cost per square meter rose to CNY 1'179 from CNY 862 for the corresponding period in 2009, due to the higher proportion of units delivered with the more expensive land use rights obtained in 2007. Net profit came in at CNY 407 million, increased by 141 percent year on year. The net gearing ratio improved to 43 percent, attributable to the strong pre-sale proceeds in the first half. Up to September, KWG has achieved contracted sales of about CNY 9.2 billion, 92 percent of the full year contracted sales target for 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)	www.hszgroup.com www.falconpb.com Neue Zürcher Zeitung (NZZ)
Bloomberg	HSZCHID SW Equity HSZCHEU SW Equity HSZCFCH SW Equity
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.