

## Newsletter November 2010

- China's PMI continues to improve amid higher inflation
- Fook Woo recovers value from waste paper
- Easing pulp price mitigates Vinda's margin pressure
- Shimao is on track to achieve full year contracted sales target

China's official Purchasing Managers' Index (PMI) continued to strengthen to 55.2 in November, after recording a better than expected reading of 54.7 in October. The sub-index for input prices rose to 73.5 from 69.9 in October. The readings suggest that the domestic economy remains buoyant amid higher inflation. CPI inflation intensified to 4.4 percent from a year earlier in October on mounting food inflation, the fastest pace in two years. In view of the robust growth combined with the heightened inflation, the policy makers have changed their tone on monetary policy from appropriately accommodative to prudent with a view to bringing the inflation under control. The credit environment would be tighter but remain benign for the steady growth of domestic demand in China.

Fook Woo, the largest waste paper collector and recycled tissue paper producer in China, announced a strong set of results for the six months ended September 2010. Net profit rose 58 percent year on year to HKD 169 million. Revenue saw a jump of 71 percent to HKD 950 million on the robust growth in both the recovered paper and recycled tissue paper segments. Sales from recovered paper and recycled tissue paper grew 89 percent and 51 percent respectively, thanks to the continuous expansion of the waste paper collection network in China and the distribution channels of its own-branded recycled tissue paper products by doubling the point of sales in large chain stores to approximately 300. Looking ahead, the company eyes on further penetrating the collection market in the northern China through closer collaboration with the local printers.

Pulp price has been corrected to below USD 800 per ton since October from its peak of USD 850 per ton in April. Vinda still has four months of pulp inventory on hand at below market price, which is enough for production until March 2011. Easing pulp costs, increase in average selling prices, mix improvement and the launch of new products would mitigate Vinda's margin pressure. Vinda has extended the exclusive contract with the popular cartoon icons in China, Pleasant Goat, by another 2 years, meaning that they will continue to package the product line with Pleasant Goat cartoons for the next 3 years. Furthermore, Vinda plans to add 100'000 tons of capacity next year, in Liaoning, Zhejiang and Sichuan. The total annual production capacity will be increased to 470'000 tons.

Shimao's contracted sales has achieved a 29 percent year on year growth to over CNY 27 billion for the first eleven months this year, on track to reach the full year target of CNY 30 billion. Average selling price increased from CNY 8'713 per square meter (sqm) in the same period last year to CNY 12'232 per sqm. Target contracted sales for 2011 is CNY 35 billion where the management expects a higher contribution from the first half of 2011. With the contract sales next year, the management expects the net gearing ratio will be lowered from the current 72-73 percent to 60 percent by the end of 2011.

Figures as of November 30, 2010

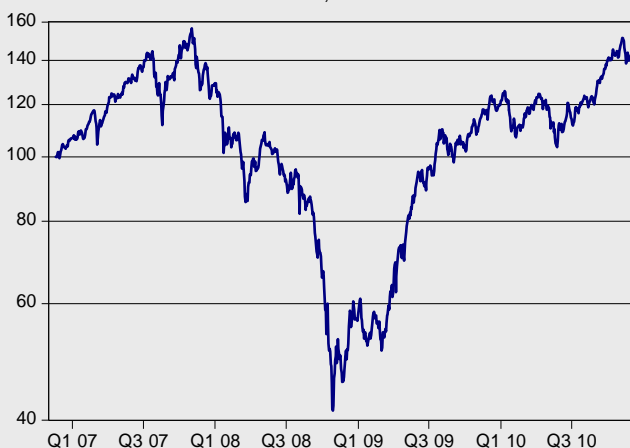
NAV: USD 143.00, CHF 113.92, EUR 141.22

Fund Size: USD 144.0 million

Cumulative Return: 306.6%

Annualized Return: 20.5%

Share Price in USD since Nov 17, 2006



### Performance

	November	YTD	1Y	Nov 17, 06
USD-Class	+0.6%	+17.6%	+21.5%	+43.0%
CHF-Class	+1.4%	+13.0%	+20.6%	+13.9%
EUR-Class	+7.2%	+29.9%	+40.5%	+41.2%

### Largest Holdings

Ports Design	5.7%
Weichai Power	5.6%
Lonking Holdings Ltd	5.5%
China Merchants Bank	5.3%
Zhuzhou CSR	5.2%
Anta Sports Products Ltd	4.9%

### Exposure

Consumer Discretionary	31.9%
Industrials	31.8%
Financials	18.9%
Energy	6.8%
Consumer Staples	6.4%
Cash	4.2%

# General Information

## Fund Facts

Name	HSZ China Fund
Theme	Entrepreneurial China
Nature	Long-only equity fund, actively managed for absolute return
Focus	Listed Chinese equities focusing on privately controlled companies
Structure	Swiss investment fund, regulated by FINMA, open-ended
Launch	November 17, 2006
Distributions	Income annually
Issue Price	100
Fiscal Year End	December 31
Reporting	Semi-annually in USD
Currency Classes	USD, CHF, EUR (all unhedged)
Trading	Daily issuance and redemption, based on NAV

## Service Providers and Fees

Fund Manager	Falcon Fund Management (Switzerland) Ltd., Zurich
Custodian Bank	Falcon Private Bank Ltd., Zurich
Investment Manager	HSZ Group, Hong Kong
Auditors	PricewaterhouseCoopers Ltd.
Management Fee	1.5%
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>
USD Class	Neue Zürcher Zeitung (NZZ) ISIN CH0026828035, Valor 2682803 WKN A0LC13
CHF Class	Bloomberg HSZCHID SW Equity ISIN CH0026828068, Valor 2682806 WKN A0LC15
EUR Class	Bloomberg HSZCFCH SW Equity ISIN CH0026828092, Valor 2682809 WKN A0LC14
Orders via Banks	Bloomberg HSZCHEU SW Equity Falcon Private Bank Ltd. Fund Order Desk Pelikanstrasse 37, PO Box 1376 8021 Zurich, Switzerland Tel: +4144 227 5566 Fax: +4144 824 6932

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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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