HSZ China Fund

Newsletter August 2009

- China's credit expansion normalized but not tightened
- Dongfeng Motor profit rises on strong auto sales
- Golden Eagle delivers quality growth
- Ports Design demonstrates margin improvement

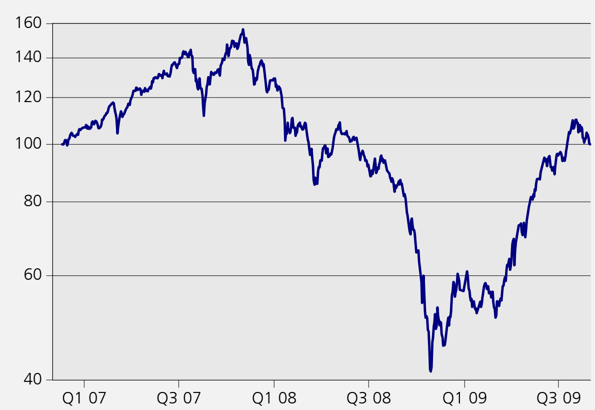
Figures as of August 31, 2009

Net Asset Value

Per Share: USD 100.04, CHF 85.11, EUR 90.12

Market Capitalization: USD 69.2 million

Share Price in USD since Nov 17, 2006



Performance

	August	YTD	1Y	Nov 17, 06
USD-Class	(7.38%)	76.97%	14.80%	0.04%
CHF-Class	(9.52%)	77.87%	11.28%	(14.89%)
EUR-Class	(8.28%)	74.35%	19.11%	(9.88%)

Largest Holdings

China Merchants Bank	6.7%
Zhuzhou CSR	6.6%
Epure International Ltd	6.5%
Lonking Holding Ltd	5.6%
Golden Eagle Retail Group	5.6%
Shui On Land	5.4%

Exposure

Industrials	35.2%
Consumer Discretionary	26.2%
Financials	21.6%
Energy	4.1%
Consumer Staples	2.6%
Information Technology	1.8%
Cash	8.5%

Chinese domestic A-share markets were under selling pressure in August amid concern over the risk of too early policy tightening. The newly extended loan in July was normalized to CNY 356 billion compared to the explosive CNY 1.53 trillion in June. Outstanding loan growth eased to 33.9 percent from 34.4 percent in June. The normalization of loan growth was well expected and will continue for the remainder of the year since the previous rapid pace of credit expansion is unsustainable. The Chinese government will likely continue its accommodative fiscal and monetary policies given the still weak external demand and the inflation risk not being imminent.

Dongfeng Motor posted its first half profit of CNY 2.61 billion, up by 66 percent compared to the second half last year. Sales rose 20 percent to CNY 39 billion, driven by the strong growth of its passenger vehicle sales. Not only did the margins continue to see improvement, its working capital cycle has been shortened with inventory days decreased from 54 days to 38 days and receivable days from 41 days to 34 days. Its market share has progressively gained from 9.9 percent in 2007 to 10.8 percent in 2008 and 11.3 percent in July this year. Its two major business lines, Nissan and Honda JV's continued to outperform the market due to the increasing popularity of the fuel efficient tier-one Japanese brands.

Golden Eagle's operating profit for the first half of 2009 came in at CNY 475 million, increased by 36 percent year on year with resilient same stores sales growth (SSSG) and concessionaire margins. The 79 percent year on year drop in the reported net profit was attributable to non-cash convertible bonds revaluation loss due to the accounting treatment, whereas recurring net profit increased by about 17 percent year on year. Golden Eagle's SSSG of 14 percent was attributable to the ticket size increase of 4 percent and volume growth of 10 percent. It is believed that the SSSG was the highest in the sector, mainly due to its large exposure to the growing China's low-tier cities and management's strong execution.

Ports Design saw margin improvement year on year for the first half of 2009 results. Gross profit margin expanded from 77.1 percent to 81.5 percent due to average selling price increase of 6 percent and greater contribution of sales from outlet mall stores. Net profit increased by 12.6 percent to CNY 206 million and net margin rose to 28.2 percent from 26.5 percent due to the increasing contribution of the higher margin retail segment and economies of scale. Ports stays in a strong financial position with net cash of CNY 600 million, representing 45 percent of the shareholders' equity. The group is on track for a 5 percent growth in net new stores by the year end of 2009.

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 an independent investment management company based in Hong Kong and is majority owned by its partners. The team has managed Asian equity portfolios since 1994. HSZ Group acts as a bridge for European capital invested in Asia and has a long-standing experience in serving institutional and private clients in Europe.