

## Newsletter May 2009

- Property activities pick up in China
- China's sportswear brands deliver good earnings visibility
- Epure achieves solid first quarter results
- Shimao completes its asset restructuring

Figures as of May 29, 2009

### Net Asset Value

Per Share: USD 91.65, CHF 79.44, EUR 84.03  
Market Capitalization: USD 63.9 million

### Share Price in USD since Nov 17, 2006



### Performance

	May	YTD	1Y	Nov 17, 06
USD-Class	23.37%	62.13%	(10.79%)	(8.35%)
CHF-Class	17.78%	66.02%	(7.92%)	(20.56%)
EUR-Class	15.43%	62.57%	(0.72%)	(15.97%)

### Largest Holdings

China Merchants Bank	7.4%
Shui On Land	6.8%
Epure International Ltd	6.8%
Lonking Holding Ltd	6.7%
Zhuzhou CSR	5.9%
Shimao Property	5.7%

### Exposure

Industrials	36.7%
Financials	24.8%
Consumer Discretionary	24.1%
Energy	3.5%
Consumer Staples	2.1%
Cash	8.8%

The property sales in China had stopped declining since the beginning of the year and has started to pick up in terms of increasing transaction volumes and stabilization in prices. The floor space sold grew by 39 percent year on year in April while the floor space under construction showed a positive growth of 10 percent. The increase in the activities could be attributed to the lower mortgage rates and therefore improved affordabilities and the better loan availability to property developers. This is also reflected in the acceleration of the official property fixed asset investment growth to 4.9 percent year on year for the first four months in 2009.

Anta and Li Ning announced 25 percent and 14.5 percent of year on year growth for the fourth quarter 2009 order book, accelerated from 15 percent and 12.7 percent for the third quarter respectively. Anta's order growth was driven by volume given its strategy to expand into low-tier cities with flat average selling prices (ASPs), whereas Li Ning's order growth was driven by both ASPs and volume. We saw picking up of same store sales growth in April compared to March. Strong order growth and stabilized same store sales growth give better earnings visibility to meet the management's full year target.

Epure net profit jumped 32 percent year on year to CNY 41 million for the first quarter 2009. Revenue increased by 7.6 percent year on year to CNY 136 million, mostly driven by sales growth from Hi-Standard, Epure's wholly-owned customized environmental equipment fabrication arm. Gross margin and net margin stayed healthy at 35 percent and 30 percent respectively. The company has recently taken a 15 percent equity stake in a build, operate and transfer (BOT) project in Lanzhou city and will finance the project with internal funds.

Shimao announced that it had completed the asset restructuring, which was proposed in 2007 through the transfer of its commercial projects in return for the majority holding of the A-share listed Shanghai Shimao. After the restructuring, its Shanghai Shimao will be responsible for the commercial properties development and Shimao Property will be responsible for residential and hotel development. This is viewed as a positive move as it broadens the funding channels for the group.

# 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 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.

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## 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)	<a href="http://www.hszgroup.com">www.hszgroup.com</a> <a href="http://www.falconpb.com">www.falconpb.com</a> Neue Zürcher Zeitung (NZZ) HSZCHIFD, HSZCHEUR, HSZCFCHF
Bloomberg	Subscription
Monthly Reports	Falcon Fund Management (Switzerland) Ltd.
Fund Administrator	Falcon Private Bank Ltd.
Custodian Bank	HSZ Group
Investment Manager	Falcon Fund Management (Switzerland) Ltd.
Main Distributor	PricewaterhouseCoopers Ltd.
Auditors	All Banks
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