



# FALCON FUND MANAGEMENT

Falcon Fund Management (Switzerland) Ltd.  
for

**HSZ** China Fund

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## Semi-Annual Report 2010 HSZ China Fund

Mutual fund under Swiss law (category "other fund for traditional investments")

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The HSZ China Fund was launched for  
HSZ Limited, British Virgin Island by  
Falcon Fund Management (Switzerland) Ltd.  
as fund manager and Falcon Private Bank Ltd.  
as custodian.

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The performances shown in this report refer to the past. Historic developments are no guarantee for future performances. The value of a unit can rise and fall any time. The performance data does not include the costs and commissions, which are charged when units were issued or redeemed.

## FACTS & FIGURES

### Characteristics of the Fund

At least two thirds of the assets of the total portfolio (after deduction of cash holdings) are invested in equity-related securities and security rights of selected issuers, which are domiciled or conduct their principal business in the People's Republic of China or in holding companies, whose participations are primarily companies, which are domiciled in the People's Republic of China. Up to one third of the fund's total assets, after deduction of cash holdings can be invested in equity-related securities and security rights and money market instruments of global issuers.

The net income of the fund is distributed to the unit holders once a year at the end of April.

From the management fees there are remittances to be effected for the distribution of the mutual fund (retrocommission on unitholdings) to distributors and portfolio managers. Institutional investors who hold units of the mutual fund for third parties are entitled to receive a reimbursement from the management fees.

### Organization

#### Fund Management

Falcon Fund Management (Switzerland) Ltd.  
Hochbordstrasse 3, CH-8600 Dubendorf-Zurich

#### Custodian and Paying Office

Falcon Private Bank Ltd.  
Pelikanstrasse 37, CH-8021 Zurich  
www.falconpb.com

#### Auditor

PricewaterhouseCoopers Ltd.  
Birchstrasse 160, CH-8050 Zurich

#### Paying Office

Falcon Private Bank Ltd.  
Pelikanstrasse 37, CH-8021 Zurich

#### Investment Decisions

Investment decisions were delegated to HSZ Limited (Woodbourne Hall, P.O. Box 3162, Road Town, Tortola, British Virgin Islands, www.hszgroup.com) up to March 4, 2010 and as from March 5, 2010 to HSZ (Hong Kong) Limited, Hong Kong, Hong Kong SAR.

#### Securities Code

2682803 (Class USD)  
2682806 (Class CHF)  
2682809 (Class EUR)

### Remarks

The prospectus with the integrated fund contract can be ordered any time and free of charge from the fund management company.

The German text is the sole basis for the authentic interpretation of the report.

A variable commission up to 5% of the net asset value was charged at issuance (can vary depending on the distribution channel).

### Key Data

	30.06.10	31.12.09	31.12.08	31.12.07
Net Fund Asset in mio. USD	88.38	86.53	40.84	166.65
Units outstanding Class USD	667 463.0550	621 015.8980	625 418.9040	1 117 800.9600
Units outstanding Class CHF	130 375.0290	109 104.5610	116 971.6140	151 841.3170
Units outstanding Class EUR	1 586.0000	2 235.0000	2 491.0000	38 909.4970
Net Asset Value per unit Class USD	114.16	121.62	56.53	129.25
Net Asset Value per unit Class CHF	99.19	100.79	47.85	116.56
Net Asset Value per unit Class EUR	120.26	108.70	51.69	112.51
Performance USD Class according to the SFA guideline	-6.13 %	118.67 %	-56.26 %	29.25 %
MSCI Emerging Markets China USD (PI)	-7.68 %	58.80 %	-51.94 %	63.10 %
Performance CHF Class according to the SFA guideline	-1.59 %	113.81 %	-58.95 %	16.56 %
MSCI Emerging Markets China USD (PI)	-3.89 %	54.33 %	-54.50 %	50.40 %
Performance EUR Class according to the SFA guideline	10.63 %	110.29 %	-54.06 %	12.51 %
MSCI Emerging Markets China USD (PI)	7.94 %	54.85 %	-49.38 %	46.31 %

## SEMI-ANNUAL STATEMENT OF ACCOUNTS

### Statement of Income from January 1 to June 30

	2010 in USD	2009 in USD
<b>Income</b>		
Income from bank receivables at sight	1 966.87	0.00
Income from bank receivables at time	647.68	1 138.78
Shares and other equity instruments	1 002 750.20	712 927.56
Purchase of current income on issue of units	-20 249.49	15 447.74
<b>Total Income</b>	<b>985 115.26</b>	<b>729 514.08</b>
<b>Expenses</b>		
Interest expenses	172.99	478.07
Audit fees	5 891.00	6 150.00
Remunerations according to regulations		
– Fund manager	644 728.20	372 543.50
– Custodian	80 187.75	43 586.16
Other expenses	11 942.53	15 261.50
Partly transfer of expenses to realized capital gains and losses	-92 946.50	-68 314.43
Payment of current income on redemption of units	-2 607.25	13 737.59
<b>Total Expenses</b>	<b>647 368.72</b>	<b>383 442.39</b>
<b>Operating Result</b>	<b>337 746.54</b>	<b>346 071.69</b>
Realized capital gains and losses	2 468 315.55	-9 010 634.29
Partly transfer of expenses to realized capital gains and losses	-92 946.50	-68 314.43
<b>Realized Result</b>	<b>2 713 115.59</b>	<b>-8 732 877.03</b>
Not realized capital gains and losses	-8 268 109.87	37 150 676.22
<b>Total Result</b>	<b>-5 554 994.28</b>	<b>28 417 799.19</b>
TER class USD	1.73 %	1.90 %
TER class CHF	1.73 %	1.90 %
TER class EUR	1.72 %	1.93 %
Performance fees as a % of average net assets class USD	0.00 %	0.00 %
Performance fees as a % of average net assets class CHF	0.00 %	0.00 %
Performance fees as a % of average net assets class EUR	0.00 %	0.00 %
PTR is calculated on the whole assets as PTR is not meaningful on the subfund level.	77.39 %	86.86 %

## SEMI-ANNUAL STATEMENT OF ACCOUNTS

### Statement of Assets as of June 30

	2010 in USD	2009 in USD
Bank receivables		
- at sight	2 186 731.33	6 359 535.77
- at time	2 569 976.91	0.00
Shares and other equity instruments	79 976 827.34	58 126 199.16
Derivative financial instruments	3 436 699.30	3 190 453.24
Other assets	597 812.15	227 700.79
<b>Total Assets</b>	<b>88 768 047.03</b>	<b>67 903 888.96</b>
Liabilities	-392 913.73	-265 453.15
<b>Total Net Asset Value</b>	<b>88 375 133.30</b>	<b>67 638 435.81</b>
<b>Number of Units Outstanding</b>	<b>Klasse USD</b>	<b>Klasse USD</b>
Total as of January 1	621 015.8980	625 418.9040
Units issued in the period under review	54 879.2590	21 130.8250
Units redeemed in the period under review	-8 432.1020	-27 972.9210
Total as of June 30	667 463.0550	618 576.8080
<b>Total Net Asset Value of a Unit USD</b>	<b>114.16</b>	<b>95.78</b>
<b>Number of Units Outstanding</b>	<b>Klasse CHF</b>	<b>Klasse CHF</b>
Total as of January 1	109 104.5610	116 971.6140
Units issued in the period under review	28 545.0190	18 105.1670
Units redeemed in the period under review	-7 274.5510	-30 310.0000
Total as of June 30	130 375.0290	104 766.7810
<b>Total Net Asset Value of a Unit USD</b>	<b>91.63</b>	<b>76.87</b>
<b>Total Net Asset Value of a Unit CHF</b>	<b>99.19</b>	<b>83.22</b>
<b>Number of Units Outstanding</b>	<b>Klasse EUR</b>	<b>Klasse EUR</b>
Total as of January 1	2 235.0000	2 491.0000
Units issued in the period under review	1 090.0000	253.0000
Units redeemed in the period under review	-1 739.0000	0.0000
Total as of June 30	1 586.0000	2 744.0000
<b>Total Net Asset Value of a Unit USD</b>	<b>146.92</b>	<b>123.08</b>
<b>Total Net Asset Value of a Unit EUR</b>	<b>120.26</b>	<b>87.37</b>

### Off-Balance Sheet Transactions as of June 30, 2010

#### Details of the Volume of open Contracts at the Balance Sheet's Date

Warrants	Quantity	in USD
Merrill Lynch on Daqin Railway Co. Ltd.	821 800	844 563.86
Merrill Lynch on Ping An In Grp.	49 000	337 414.00
Merrill Lynch on Qingdao Haier Co.	797 454	2 254 721.44

	Market Risk in USD	Net Asset Value in %	Currency Risk in USD	Net Asset Value in %
<b>Total Risks of Derivative Financial Instruments</b>	<b>3 641 084.00</b>	<b>4.12</b>	<b>0.00</b>	<b>0.00</b>

#### Credit Risk

The investment fund does not hold investments, which contain a credit risk.

No loans have been granted nor have securities been lent.

## SEMI-ANNUAL STATEMENT OF ACCOUNTS

### Changes of the Fund's Total Net Assets (Art. 75 CIS0-SFMSA)

	2010 in USD
<b>Total Net Asset Value as of January 1</b>	<b>86 529 799.32</b>
Units issued in the period under review	9 301 836.13
Units redeemed in the period under review	-1 901 507.87
Realized capital gains and losses	2 375 369.05
Operating result	337 746.54
Unrealized capital gains and losses	-8 268 109.87
<b>Total Net Asset Value according to the Statement of Assets as of June 30</b>	<b>88 375 133.30</b>
<b>Thereof Class USD</b>	<b>76 196 338.34</b>
<b>Thereof Class CHF</b>	<b>11 945 775.84</b>
<b>Thereof Class EUR</b>	<b>233 019.12</b>

### Use of Earnings

Interim balance of current year's earnings per unit of Class USD	0.44
Interim balance of current year's earnings per unit of Class CHF	0.34
Interim balance of current year's earnings per unit of Class EUR	0.36
Retained earnings per unit	0.00

## SEMI-ANNUAL STATEMENT OF ACCOUNTS

### Portfolio Composition as of June 30, 2010

#### Assets

Quantity	Name	Country	Currency	Price	Value in USD	Value in % of Fund Assets
<b>Shares and other Equity Instruments, quoted on Stock Exchange 90.50 %</b>						
<b>Mechanical Engineering and Industrial Equipment</b>					<b>18 323 714.32</b>	<b>20.73</b>
1 789 000	China High Speed Transmission Equipment Group Co. Ltd.	Cayman Islands	HKD	16.56	3 806 886.23	4.31
1 980 000	Dongfeng Motor Group Co. Ltd.	China	HKD	9.18	2 335 646.41	2.64
5 974 000	Lonking Holdings Ltd.	Cayman Islands	HKD	5.22	4 007 143.97	4.53
628 200	Weichai Power Co. Ltd.	China	HKD	50.80	4 100 727.11	4.64
1 905 000	Zhuzhou CSR Times Electric Co. Ltd.	China	HKD	16.64	4 073 310.60	4.61
<b>Textiles, Garments and Leather Goods</b>					<b>8 556 063.48</b>	<b>9.68</b>
2 425 000	Anta Sports Products Ltd.	Cayman Islands	HKD	14.18	4 418 625.54	5.00
6 133 000	China Dongxiang (Group) Co. Ltd.	Cayman Islands	HKD	5.25	4 137 437.94	4.68
<b>Miscellaneous Consumer Goods</b>					<b>6 709 242.11</b>	<b>7.60</b>
1 759 000	Ports Design Ltd.	Bermuda	HKD	20.00	4 520 589.38	5.12
2 569 000	Vinda International Holdings Ltd.	Cayman Islands	HKD	6.63	2 188 652.73	2.48
<b>Retail Trade and Department Stores</b>					<b>6 552 001.92</b>	<b>7.41</b>
1 767 000	Golden Eagle Retail Group Ltd.	Cayman Islands	HKD	16.40	3 723 742.34	4.21
3 100 000	New World Department Store China Ltd.	Cayman Islands	HKD	7.10	2 828 259.58	3.20
<b>Food and Soft Drinks</b>					<b>5 974 782.54</b>	<b>6.76</b>
3 201 000	Ajisen (China) Holdings Ltd.	Cayman Islands	HKD	8.73	3 590 865.54	4.06
4 169 000	Uni-President China Holdings Ltd.	Cayman Islands	HKD	4.45	2 383 917.00	2.70
<b>Banks and other Credit Institutions</b>					<b>5 429 560.15</b>	<b>6.15</b>
2 235 649	China Merchants Bank Co. Ltd.	China	HKD	18.90	5 429 560.15	6.15
<b>Real Estate</b>					<b>5 279 903.77</b>	<b>5.97</b>
2 992 500	KWG Property Holding Ltd.	Cayman Islands	HKD	4.86	1 868 829.38	2.11
7 830 550	Shui On Land Ltd.	Cayman Islands	HKD	3.39	3 411 074.39	3.86
<b>Energy and Water Supply</b>					<b>4 527 056.95</b>	<b>5.12</b>
8 133 000	Sound Global Ltd.	Singapore	SGD	0.78	4 527 056.95	5.12
<b>Insurance Companies</b>					<b>3 964 937.88</b>	<b>4.49</b>
479 500	Ping An Insurance (Group) Company of China Ltd.	China	HKD	64.35	3 964 937.88	4.49
<b>Mining, Coal and Steel</b>					<b>3 532 208.38</b>	<b>4.00</b>
964 500	China Shenhua Energy Co. Ltd.	China	HKD	28.50	3 532 208.38	4.00
<b>Pharmaceuticals, Cosmetics and med. Products</b>					<b>3 214 710.00</b>	<b>3.64</b>
103 500	Mindray Medical Intl. Ltd.	China	USD	31.06	3 214 710.00	3.64
<b>Building Industry and Building Materials</b>					<b>2 900 303.75</b>	<b>3.28</b>
1 841 000	Shimao Property Holdings Ltd.	Cayman Islands	HKD	12.26	2 900 303.75	3.28
<b>Electronics and Semiconductors</b>					<b>2 081 064.50</b>	<b>2.35</b>
1 446 000	Aac Acoustic Technologies Holdings Inc.	Hong Kong	HKD	11.20	2 081 064.50	2.35
<b>Financial, Investment and other diversified Companies</b>					<b>1 863 032.80</b>	<b>2.11</b>
1 826 000	Daphne International Holdings Ltd.	Cayman Islands	HKD	7.94	1 863 032.80	2.11
<b>Forestry, Paper and Forest Products</b>					<b>752 098.60</b>	<b>0.85</b>
2 512 000	Fook Woo Group Holdings Ltd.	Cayman Islands	HKD	2.33	752 098.60	0.85
<b>Environmental Services and Recycling</b>					<b>279 578.82</b>	<b>0.32</b>
15 728	ZhongDe Waste Technology AG	Germany	EUR	14.55	279 578.82	0.32

## SEMI-ANNUAL STATEMENT OF ACCOUNTS

### Portfolio Composition as of June 30, 2010

#### Assets

Quantity	Name	Country	Currency	Price	Value in USD	Value in % of Fund Assets
<b>Graphics, Publishing and Printing Media</b>						
11 758	VisionChina Media Inc.	Cayman Islands	USD	3.11	36 567.38	0.04
<b>Total Shares and other Equity Instruments, quoted on Stock Exchange</b>					<b>79 976 827.34</b>	<b>90.50</b>
<b>Derivative Financial Instruments 3.89 %</b>						
<b>Warrants</b>						
821 800	Warrants Merrill Lynch on Daqin Railway Co. Ltd.	Netherlands Antilles	USD	1.03	844 563.86	0.96
49 000	Warrants Merrill Lynch on Ping An In Grp.	Netherlands Antilles	USD	6.89	337 414.00	0.38
797 454	Warrants Merrill Lynch on Qingdao Haier Co.	Netherlands Antilles	USD	2.83	2 254 721.44	2.55
<b>Total Derivative Financial Instruments</b>			<b>USD</b>		<b>3 436 699.30</b>	<b>3.89</b>
<b>Total Investments</b>			<b>USD</b>		<b>83 413 526.64</b>	<b>94.39</b>
<b>Bank Receivables<sup>1</sup></b>						
- at sight			USD		2 186 731.33	2.47
- at time			USD		2 569 976.91	2.91
<b>Other Assets</b>			<b>USD</b>		<b>597 812.15</b>	<b>0.68</b>
<b>Total Fund Assets</b>			<b>USD</b>		<b>88 768 047.03</b>	
<b>Liabilities</b>			<b>USD</b>		<b>-392 913.73</b>	<b>-0.45</b>
<b>Total Net Asset Value</b>			<b>USD</b>		<b>88 375 133.30</b>	<b>100.00</b>

<sup>1</sup> Deposits are protected by deposit insurances up to CHF 100 000.00 or countervalue.

	Currency	Rate
<b>Exchange Rates to USD</b>		
Hongkong Dollar	HKD	0.1285
Singapore Dollar	SGD	0.7136
Euro	EUR	1.2217



## SEMI-ANNUAL STATEMENT OF ACCOUNTS

### Changes in Securities Holdings from January 1 to June 30, 2010

Name	Currency	Quantity 01.01.10	Quantity Bought*	Quantity Sold*	Quantity 30.06.10
<b>Bermuda</b>					
Esprit Holdings Ltd.	HKD	0	47 000	47 000	0
Ports Design Ltd.	HKD	1 520 500	292 000	53 500	1 759 000
<b>Cayman Islands</b>					
Ajisen (China) Holdings Ltd.	HKD	3 367 000	0	166 000	3 201 000
Anta Sports Products Ltd.	HKD	2 620 000	323 000	518 000	2 425 000
China Dongxiang (Group) Co. Ltd.	HKD	0	6 133 000	0	6 133 000
China High Speed Transmission Equipment Group Co. Ltd.	HKD	1 627 000	199 000	37 000	1 789 000
China Lilang Ltd.	HKD	0	1 194 000	1 194 000	0
Daphne International Holdings Ltd.	HKD	0	1 826 000	0	1 826 000
Fook Woo Group Holdings Ltd.	HKD	0	2 512 000	0	2 512 000
Golden Eagle Retail Group Ltd.	HKD	1 693 000	662 000	588 000	1 767 000
Inspur International Ltd.	HKD	8 425 000	0	8 425 000	0
KWG Property Holding Ltd.	HKD	2 600 000	392 500	0	2 992 500
Li Ning Co. Ltd.	HKD	842 000	0	842 000	0
Lonking Holdings Ltd.	HKD	5 094 000	1 931 000	1 051 000	5 974 000
New World Department Store China Ltd.	HKD	2 529 000	571 000	0	3 100 000
Shimao Property Holdings Ltd.	HKD	1 737 000	104 000	0	1 841 000
Shui On Land Ltd.	HKD	6 604 550	1 226 000	0	7 830 550
Uni-President China Holdings Ltd.	HKD	3 629 000	540 000	0	4 169 000
Vinda International Holdings Ltd.	HKD	2 541 000	76 000	48 000	2 569 000
VisionChina Media Inc.	USD	92 798	0	81 040	11 758
<b>China</b>					
China Merchants Bank Co. Ltd.	HKD	1 978 450	257 199	0	2 235 649
China Merchants Bank Co. Ltd. (rights)	HKD	0	257 199	257 199	0
China Shenhua Energy Co. Ltd.	HKD	763 000	201 500	0	964 500
Dongfeng Motor Group Co. Ltd.	HKD	0	2 090 000	110 000	1 980 000
Mindray Medical Intl. Ltd.	USD	85 700	17 800	0	103 500
Ping An Insurance (Group) Company of China Ltd.	HKD	416 000	63 500	0	479 500
Weichai Power Co. Ltd.	HKD	464 200	184 000	20 000	628 200
Zhuzhou CSR Times Electric Co. Ltd.	HKD	2 107 000	282 000	484 000	1 905 000
<b>Germany</b>					
ZhongDe Waste Technology AG	EUR	56 076	0	40 348	15 728
<b>Hong Kong</b>					
Aac Acoustic Technologies Holdings Inc.	HKD	936 000	510 000	0	1 446 000
<b>Singapore</b>					
Sound Global Ltd.	SGD	9 852 000	287 000	2 006 000	8 133 000

\* Include purchases and sales as well as corporate actions.

## EXPLANATORY NOTES TO THE SEMI-ANNUAL REPORT

### Basics for the valuation as well as for the calculation of the net asset value

1. The mutual fund's net assets and the proportion accounted for by each individual class are calculated at current value at the end of the accounting year and on each day on which units are issued or redeemed, in USD. The fund's assets will not be calculated on days when the stock exchanges/markets in the fund's main investment countries are closed (e.g. bank and stock exchange holidays).

2. In the case of listed investments or those traded on another regulated market open to the public, the current value corresponds to the prices paid on the main market. Other investments or investments for which no current prices are obtainable shall be valued at the price that would probably be obtained upon a diligent sale at the time of appraisal. In this case the Fund Manager shall apply reasonable, recognized and auditable valuation models and principles for calculating the current value.

3. The value of money market instruments which are not traded on a stock exchange or other regulated market open to the public is determined as follows: starting from the net acquisition price and keeping the investment yield (calculated therefrom) constant, the valuation price of such investments is gradually aligned with the redemption price. If there are significant changes in the market conditions, the valuation principles for the individual investments will be adjusted in line with the new market returns. If there is no current market price in such instances, the calculations are as a rule based on the valuation of money market instruments with the same characteristics (quality and domicile of the issuer, issuing currency, term to maturity).

4. Bank deposits are valued on the basis of the amount due plus accrued interest. If there are significant changes in the market conditions or credit ratings, the valuation principles for time deposits will be adjusted in line with the new situation.

5. The net asset value of a unit in a particular class is obtained by calculating the share of that class in the market value of fund assets attributable to the class, subtracting any liabilities of the fund attributable to that unit class, and dividing the result by the number of units of that class in circulation. It is rounded up or down to the nearest 1/100 of the currency of account.

6. The share of the market value of the fund's net assets (assets minus liabilities) attributable to the respective classes of units is determined for the first time at the initial issue of more than one class of units (if this occurs simultaneously) or the initial issue of a further class of units. The calculation is made on the basis of the assets accruing to the fund for each class of units. The share is recalculated when one of the following events occurs:

a) upon the issuance and redemption of units;

b) on the key date for distributions, provided (i) such distributions relate only to individual classes of unit (distribution classes) or provided (ii) the distributions made by various classes of unit differ with regard to the percentage of their respective net asset values or provided (iii) differing costs or commissions, calculated as a percentage of the distribution itself, are to be charged on the distributions of different classes of unit;

c) when the NAV is calculated, as part of the allocation of liabilities (including due or accrued costs and commissions) to the various classes of unit, provided that the liabilities of the various classes of unit are different when expressed as a percentage of the respective NAV, especially if (i) different commission rates are applied for the various classes of unit or if (ii) class-specific costs are charged;

d) when the net asset value is calculated, as part of the allocation of income or capital gains to the various unit classes, provided the income or capital gains stem from transactions made solely in the interests of one unit class or in the interests of several unit classes but disproportionately to their share of the fund's net assets.

### Soft Commission Agreements

For the period of January 1, to June 30, 2010 no soft commission agreements were concluded in the name of Falcon Fund Management (Switzerland) Ltd. nor were soft commissions received.