CIC
China Investment
Corporation

Newsletter April 2006

- Tightening policy temporarily halts China rally
- Lung Kee's profit growth suffers from higher raw material prices
- Techtronic's results dented by change in customer inventory policy
- Glorious Sun's net profit increases 11 percent
- Denway reports lower profit but sees strong demand ahead

China's first quarter GDP data seems to suggest that if anything, growth is underestimated. Overall GDP growth was 10.2 percent year-on-year, with consumption and investment (+29.8% year-on-year) both picking up. Surprisingly, inflation came in at only 0.8 percent year-on-year. The surprise increase in lending rates at the end of April signals concerns over possible overheating. China shares started the month strongly, driven by commodity stocks. However, in response to the tightening policy move, shares corrected towards the end of April. We made no major changes to the asset allocation during the month.

Lung Kee's net profit increased 10 percent in 2005 to HKD 241 million, on the back of a 19 percent increase in turnover to HKD 1'899 million. Operating profit increased by 7 percent to HKD 305 million while the operating profit margin declined to 16 percent from 18 percent in 2004, due to higher raw material costs. Management expects margins to stabilize, while turnover growth in 2006 is expected to at least match 2005's figure.

For the year ended December 31, 2005, Techtronic reported revenue of HKD 22.4 billion, up 37 percent year-on-year, including full year contributions from the acquisitions of Milwaukee and AEG. Gross margin was 31.1 percent, up 0.7 percentage points (ppt) thanks to cost control efforts and an improved product portfolio which offset rising material costs. However, a major US customer, Home Depot, decided to lower its inventory level globally, leading to a one-off sales cut. The acquisitions also involved USD 8 million in restructuring and finance charges. As a result, the operating margin declined and net profit increased by only 10 percent. The results were below expectations. However, management reiterated the strength of sales growth in 2006.

Glorious Sun reported net profit of HKD 243 million for 2005, an increase of 11 percent, while turnover increased 6 percent to HKD 3'802 million. Despite operating margin pressure, better performance from one of its garment wholesale associates in the US and a lower effective tax rate helped expand the net margin. The retail division contributed 66 percent of sales and 71 percent of operating profits. Currently, the company has net cash of HKD 1 billion or 24 percent of its current market capitalization.

For the year ended December 31, 2005, Denway reported turnover of HKD 850 million, a decrease of 12.4 percent over last year. A profit decline on the associate level dragged down the net profit 8 percent to HKD 1.9 billion. Results were below expectations. Sedan sales increased 14 percent to 230'773 units. However, price cuts in response to increased competition hurt earnings. The company sees a more stable pricing level ahead as it continues to upgrade its products. Given the strength of sedan sales nationwide in the first quarter, we remain confident of a turnaround this year.

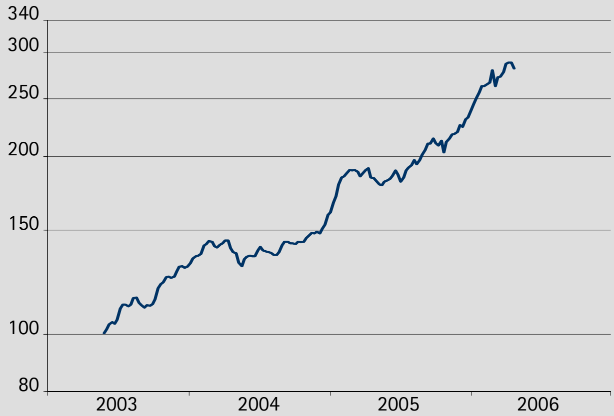
Figures as of April 30, 2006

Net Asset Value

Per Share: USD 281.48

Market Capitalization: USD 28.0 million

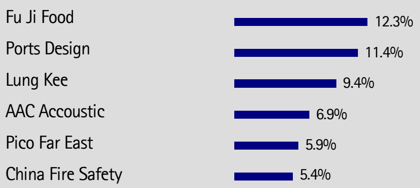
Share Price in USD since May 27, 03



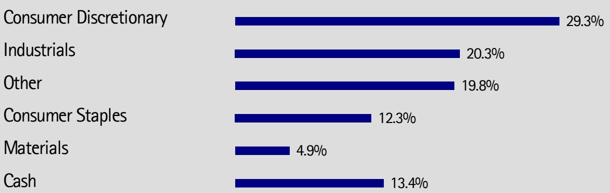
Performance

Apr	YTD	1 Y	May 27, 03
1.3%	20.8%	53.0%	181.5%

Largest Holdings



Exposure



General Information

Legal Nature	Trust account, CSPB Singapore
Security	Phantom shares
Bloomberg	CHININC SP <Equity>
Valor	2233619

Trading	Daily, based on NAV
Dilution Levy	0.7% in favour of CIC
Trading Fee	0.5%
Management Fee	1%
Performance Fee	20% above 8% hurdle rate, high water mark

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Investment Rationale

Since Deng Xiao-ping succeeded Mao towards the end of the 1970s, economic development has taken centre stage in China. Market-oriented reforms and decentralized decision making were introduced at the Party Congress in 1978. Over the last decade the shift from communist dogmatism to economic pragmatism has become deeply entrenched. As a consequence, China has become 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. China Investment Corporation ("CIC") is managed with a view to careful selection and trading of its portfolio companies. In order to mitigate the risks invariably associated with young and fast growing economies, CIC emphasizes quality in all its aspects. CIC is designed to provide investors with a conservative and liquid equity exposure to a part of the world that is gradually gaining in importance.

The Fund

CIC is a trust account in the name of HSZ Limited with the Singapore Branch of Credit Suisse Private Banking and was set up on May 27, 2003. Phantom shares are issued and redeemed daily based on CIC's net asset value. CIC will be converted into a mutual fund under Swiss legislation shortly.

Investment Strategy

The objective is to create sustained shareholder value by acquiring and managing equity and equity-linked investments in a select number of high-quality companies that have a significant exposure to China, regardless of the listing location. Companies with significant China exposure generate at least 50 percent of their revenues and/or have at least 50 percent of their manufacturing capacity in China. 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. Investments by CIC in any single company may not exceed 20 percent of CIC's assets upon the date of purchase and 10 percent of a company's capital. No debt financing is employed. Derivatives are used, however with moderation.

The Manager

HSZ Group is an investment management company with offices in Hong Kong and Zurich. The company is majority owned by its three partners and employs a total staff of thirteen. The team has managed Asian equity portfolios since 1994.