CIC
China Investment Corporation

Newsletter August 2004

- China shares underperform
- Macro data confirm decelerating growth trend
- Lung Kee – 45% earnings growth
- Ports Design – 15% turnover increase
- Earnings momentum at IDT intact

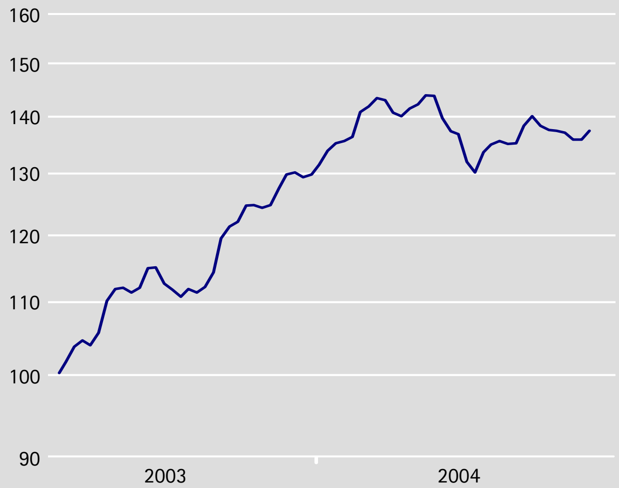
Figures as of August 31, 2004

Net Asset Value

Per Share: USD 138.99

Market Capitalization: USD 1.4 million

Share Price in USD Since May 27, 03



Performance

Aug	YTD	1 Y	May 27, 03
0.9%	7.1%	23.5%	39.0%

Largest Holdings

Lung Kee	15.9%
Ports Design	14.8%
IDT	14.7%
Hopewell High	10.2%
Roly	8.7%
Tong Ren Tang	4.8%

Exposure

Consumer Discretionary	28.0%
Industrials	19.0%
IT	19.0%
Other	10.0%
Health Care	5.0%
Cash	19.0%

China shares underperformed versus other markets in Asia during August, ending the month almost unchanged. While investor concerns over the tightening policy have eased, caution prevails as it remains still unclear whether the measures undertaken so far are sufficient to bring the economy back onto a more sustainable growth path. During the month, we sold the position in Hong Kong Exchanges & Clearing, following a sharp increase in its share price and added to the position in IDT.

Macro data released during the month generally confirmed the decelerating growth trend. However, the data also suggest that the economy is far from heading towards a so-called "hardlanding". July's industrial output rose 15.5 percent, while retail sales were up 13.2 percent. M2 expanded 15.3 percent, the smallest gain since July 2002 and the second consecutive month that growth has stayed within the central bank's 17 percent target. Fixed asset investment, a volatile number, surged 31 percent.

Representing an increase of 45 percent over the corresponding period last year, Lung Kee reported net profit of HKD 109 million for the six months ended June 2004. Revenue was HKD 771 million, an increase of 78 percent. The gross profit margin was 46 percent, compared to 56 percent last year as steel prices rose sharply. However, the company has been able to sustain its operating profit margin due to cost-cuts and production efficiency gains of its new plant.

Ports Design's turnover increased by 15 percent to CNY 292 million as retail turnover jumped 36 percent year-on-year to 76 percent of total for the 6 months ended June 30, 2004. The OEM business declined by 27 percent due to a high base last year. The overall gross margin improved 9.0 percentage points to 63.7 percent, mainly due to the absence of last year's price discounts during the SARS period. Net profit increased by 26 percent to CNY 45.2 million. Adjusting for the tax rebate received in the same period last year, net profit would have increased by 40 percent. The company declared a 4-for-1 stock split to improve liquidity of the stock.

Earnings momentum at IDT remained intact during the first quarter ended June 30, 2004 as efficiency gains offset a slowdown in sales growth. On a year-on-year basis, turnover increased by 8 percent to HKD 507 million, while net profit increased by 26 percent to HKD 18 million. A decline in the sales of electronic learning products explains slower than expected sales growth for the Oregon Scientific brand. According to management, orders for Oregon Scientific products remain strong and co-branded products with Ferrari and Philip Starck see encouraging developments. Management remains confident to achieve double digit topline growth for the year.

General Information

Legal Nature	Trust account, CSPB Singapore
Security	Phantom shares

Trading	Daily, based on NAV
Dilution Levy	0.7%
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 center 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. It is planned to incorporate CIC upon reaching net assets of approximately USD 10 million.

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 gross 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 a global investment management company with a special interest in Asia. The company is majority owned by its four partners and employs a total staff of thirteen in Hong Kong, Singapore and Zurich. The team has managed Asian equity portfolios since 1994.