

Newsletter February 2006

- China shares remain best performing sector in Asia
- Fu Ji Food & Catering continues to sign new contracts
- Pico reports impressive growth
- Hopewell Highway's revenue increases 29 percent
- Power tool manufacturer Techtronic added to portfolio

China shares remain the best performing sector in Asia. Strong economic growth, ongoing capital market reforms and the prospect of an appreciating currency continue to be the main drivers. February's fund performance was driven by Pico and Hopewell Highway on the back of strong earnings results. During the month, we added a position in Techtronic.

Fu Ji Food & Catering continues to sign new contracts. For the 9 months ended December 31, 2005, Fu Ji Food & Catering's sales were up 70 percent year-on-year to CNY 550 million as the contribution from catering services increased by 132 percent to 68 percent of total. Restaurant sales increased 13 percent to 27 percent of total. As the company offered price discounts on new contracts with larger volume, the operating margin declined by 5 percentage points to 40.6 percent. Net profit was up 53 percent to CNY 182.6 million.

Pico reported impressive growth for the year ended October 31, 2005. Turnover was up 27 percent year-on-year to HKD 1.7 billion as the exhibition business grew 9 percent to 69 percent of total revenue. Museum interior fit-out orders were up 149 percent to 16 percent of total revenue. Net profit increased by 168 percent to HKD 121 million. Stripping out a non-recurring HKD 20 million loss on Disney contracts last year, net profit growth would have been 86 percent year-on-year. We remain confident that the company will benefit from the developing exhibition industry in Asia and China in particular.

Hopewell Highway reported a 29 percent increase in revenue to HKD 860 million and a 31 percent increase in net profit to HKD 564 million during the 6 months ended December 31, 2005. Net toll revenue was up 16 percent as the daily traffic of the three highways grew 22 percent. The company also reported a HKD 97 million gain on its cash holdings due to the Renminbi revaluation in July 2005. The company continues to see solid traffic growth in Southern China. New projects in the pipeline strengthen its longer term prospects.

Techtronic evolved from a pure contract manufacturer of power tools into a brand owner, holding a number of household names like Ryobi and Homelite. In 2004, it reported HKD 16.3 billion in sales and a net profit of HKD 938 million. Currently, more than 40 percent of its sales go to Home Depot. Techtronic has been increasing its market share through product innovation and diversification. Recent developments were less satisfactory, as it was affected by Home Depot's policy of lowering inventory levels in late 2005. Nevertheless, Techtronic continues to see strong order flows. We added this quality name to the portfolio as we believe the company was overly penalized by the market for the recent news.

Figures as of February 28, 2006

Net Asset Value

Per Share: USD 265.88

Market Capitalization: USD 25.5 million

Share Price in USD since May 27, 03



Performance

Feb	YTD	1 Y	May 27, 03
3.6%	14.2%	39.9%	165.9%

Largest Holdings

Fu Ji Food	10.6%
Lung Kee	9.9%
Ports Design	9.8%
Pico	5.4%
Hopewell	5.3%
China Fire Safety	5.1%

Exposure

Consumer Discretionary	29.2%
Other	17.8%
Industrials	16.5%
Consumer Staples	10.6%
Materials	4.8%
Cash	21.1%

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. 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 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.