

CIC China Investment Corporation

Newsletter July 2004

- China shares outperform in July
- Economic data's conflicting message
- IDT's double digit sales growth target confirmed
- Roly acquires Byford International
- Audio and visual products drive growth for Alco

China shares outperformed versus other markets in Asia during July, still ending the month of July almost unchanged. The relative performance indicates that investor concerns over the tightening policy have eased. We reduced the cash holdings of CIC by 10%, adding to the positions in Lung Kee, Ports Design and Dream. We also added two new stocks with contract manufacturer Alco and Hong Kong Exchanges & Clearing. The latter is the monopoly operator of the stock exchange in Hong Kong, generating half of its turnover from China shares and benefiting from the increased listing of Chinese companies on the Hong Kong stock exchange. We sold the position in Li Ning on valuation grounds.

Economic data releases send conflicting messages about the status quo of the Chinese economy since the tightening measures were introduced. Fixed-asset-investment and bank-lending data for June have confirmed the slowing trend. Inflationary pressures seem to have eased, too. Non-food CPI rose by only 0.6% year-on-year, and the CPI index fell by 0.7% month-on-month in June. However, imports rose by 50% year-on-year. Electricity consumption rose by 16% in the first half of this year, with reports of power shortages becoming daily news. Despite reports that Chinese authorities have become concerned that they have overdone the credit crunch on the targeted sectors, the evidence seems to suggest that ultimately a more aggressive tightening policy might become necessary.

IDT confirmed its double digit sales growth target for the current year in our meeting with management in July. Orders for Oregon Scientific products remain strong and co-branded products with Ferrari and Philip Starck see encouraging developments. Overall, the bottom line is expected to grow in line with the top line although we might expect some margin pressure should the overall raw material price increases continue.

Roly entered into an agreement with Byford International, a Hong Kong listed company, by which Roly will acquire 51 percent of Byford International. The purchase price is HKD 51 million or HKD 0.5 per share, a premium of 8.7 percent to the closing price before the announcement. Roly believes that the Byford brand will enhance and complement its existing brand portfolio. In addition, Roly management told us that it might inject Roly's China business into the listed vehicle in order to unlock its value.

Alco is a producer of audio and visual products, with LCD DVD combos and MP3 players as the new growth drivers. It has long established relationships with major Japanese and American customers like Toshiba and Walmart. Our investment case rests on the strong order flow, undemanding valuation at 8 times historical earnings, a 6 percent dividend yield and the quality of management.

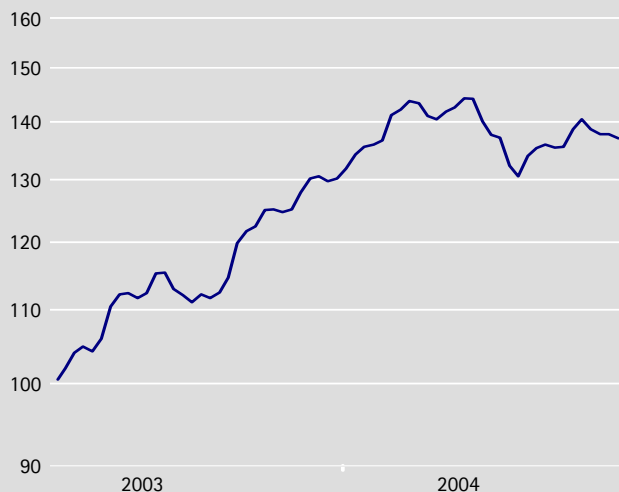
Figures as of July 31, 2004

Net Asset Value

Per Share: USD 137.77

Market Capital: USD 1.4 million

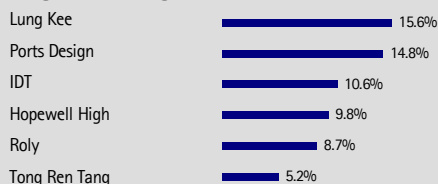
Share Price since May 27, 03



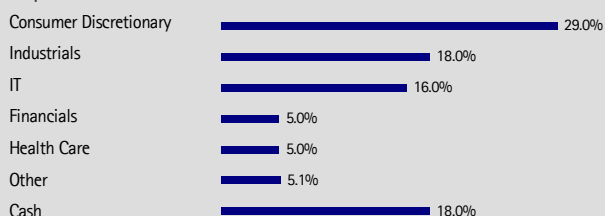
Performance

Jul	YTD	1 Y	May 27, 03
0.2%	6.2%	23.2%	37.7%

Largest Holdings



Exposure



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 assets and 10 percent of a company's capital. No overall leverage is employed, except temporarily. Derivatives are used, however with moderation.

The Manager

CIC is managed by HSZ Group, a global investment management boutique with offices in Hong Kong, Singapore and Zurich. HSZ Group is majority owned by its four partners and employs a total staff of thirteen. The team has managed Asian equity portfolios since 1994.

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