CIC
China Investment Corporation

Newsletter June 2006

- Small and mid cap China stocks hit by risk aversion in June
- Fu Ji's net profit increases 52 percent
- Hopewell Highway's growth prospect remains intact
- Shui On Construction postpones IPO
- Pico's earnings growth dented by one-off expense

China shares sold off in line with other regional markets in the first two weeks of June, but managed to regain ground towards the end of the month. Increasing risk aversion led to a sharper correction among some of the small and mid cap stocks that the portfolio is focused on. The noise of more tightening moves out of China intensified during the month although we remain unconvinced that this will have a significant impact on the Chinese economy. During the month we divested smaller positions in IDS, GZI Reit and Weiqiao and put in small positions in China Unicom, Sinopec and Shenzhen Investment.

Fu Ji Food & Catering (Fu Ji) reported a 52 percent increase in net profit to CNY 251 million for the year ended March 31, 2006. Sales increased 75 percent. As the company continued to sign up new customers of larger contract volume, the operating margin declined 5.7 percentage points to 38.7 percent. During the period, the company established 6 central kitchens in China to enhance efficiency and secure new customers, increasing capacity by 367 percent to 700'000 sets per day. Results were in line with expectations and we continue to hold Fu Ji as a core holding due to its strong earnings outlook

Recently we met Thomas Wu, managing director of Hopewell Highway who maintained that the rising car ownership in southern China has boosted traffic within Hopewell Highway's service areas and will underpin the longer term growth outlook. The group's latest project, the 49-kilometre Phase II of the Western Delta Route with total investment of CNY 4.9 billion, has started construction and will generate revenue by 2008-2009. The five-lane expansion of Guangzhou-Shenzhen Superhighway is also underway.

On June 15, 2006, Shui On Construction announced that the listing of Shui On Land, its 21 percent-owned China property arm, was postponed as market sentiment deteriorated due to the tightening measures announced by the Chinese government. We agree with the decision and believe that a better valuation should be achievable when sentiment improves given the quality of Shui On Land's portfolio.

Pico Far East's revenue was up 11 percent year-on-year to HKD 833.8 million, for the six months ended April 30, 2006. Exhibition business, sign advertising and exhibition hall management business reported solid results. Museum interior fit-outs and conference management revenue were softer due to the timing of project completions. Operating profit was hit by an unexpected HKD 10 million bad debt provision due to some billing disputes on one of its projects. Net profit was up 10 percent to HKD 57.4 million. We believe that the growth outlook for the second half of the year remains strong and intend to retain Pico as a core holding.

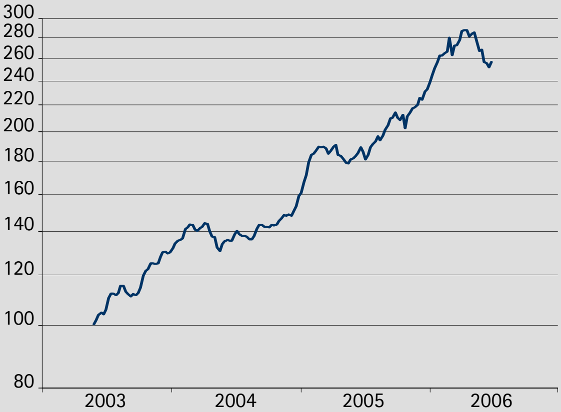
Figures as of June 30, 2006

Net Asset Value

Per Share: USD 256.72

Market Capitalization: USD 24.6 million

Share Price in USD since May 27, 03



Performance

Jun	YTD	1 Y	May 27, 03
(4.7%)	10.2 %	37.7%	156.7%

Largest Holdings

Fu Ji Food	12.4%
Ports Design	10.5%
Lung Kee	8.7%
AAC Accoustic	6.6%
Pico Far East	5.6%
China Fire Safety	5.3%

Exposure

Consumer Discretionary	24.9%
Other	16.6%
Industrials	13.8%
Consumer Staples	11.0%
Materials	5.2%
Telecom	5.1%
Financials	2.4%
Energy	2.3%
Cash	18.7%

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

HSZ Group	Dr. Andreas Eppenberger, Zurich Christoph Himmelstein, Hong Kong Dr. Hans-Rudolf Schmid, Hong Kong Prof. Dr. Georg Rich, Zurich (Adviser)
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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.