CIC
China Investment Corporation

Newsletter October 2006

- China shares mark new high for the year
- United Technologies increases stake in GST
- Ecogreen's growth driven by outsourcing trend
- China Merchants Bank benefits from consumer banking
- Yanlord overlooked by broker community

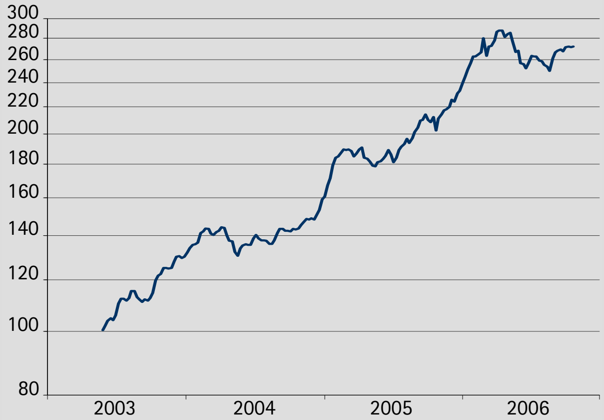
Figures as of October 31, 2006

Net Asset Value

Per Share: USD 274.35

Market Capitalization: USD 29.1 million

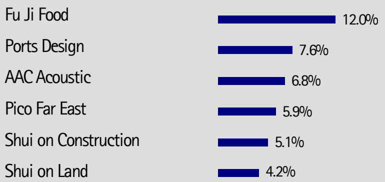
Share Price in USD since May 27, 03



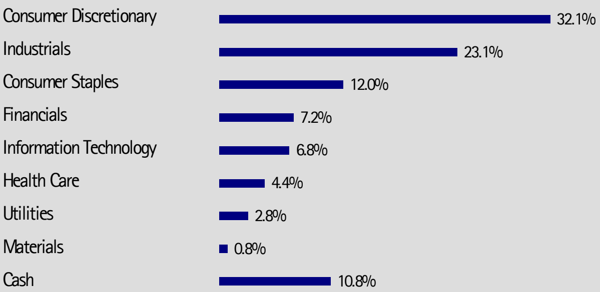
Performance

Oct	YTD	1 Y	May 27, 03
2.5%	17.8 %	32.7%	174.4%

Largest Holdings



Exposure



China shares made a new high in October. The strength of the local economy, strong interest in the recent IPOs, with the oversubscription of the ICBC IPO highlighting the amount of liquidity in the system all continued to support markets. The strength of the CNY continued to support in particular property stocks. During the month, we made initial investments in Ecogreen, China Merchants Bank and Yanlord.

During the month, GST'second largest shareholder, United Technologies, increased its stake from 10.15% to 18.82% at an average price of HKD 3.26 through purchases from two other financial investors. This signals the confidence of the Fortune 500 company in GST's value and strategic importance.

Ecogreen Fine Chemical (Ecogreen) is a leading manufacturer of fine chemicals such as aroma and pharmaceutical raw materials for the manufacturing of products in areas such as personal care, food and beverages and pharmaceuticals. Its main customers include most of the major international food and flavor companies. Ecogreen has a low cost base in manufacturing as well as strong research and development that turn former competitors into customers who outsource their fine chemicals production to the company. Management plans to increase its production capacity from the current level of 16'000 tonnes per annum to 20'000 by the end of 2007. We believe the continuing outsourcing trend and capacity expansion to fuel Ecogreen's future growth.

We participated in the Hong Kong placement of China Merchants Bank (CMB), the sixth largest bank in China. CMB's has total assets of CNY 824 billion, loan and deposit market shares of 2.3 and 2.1 percent, respectively, as at June 2006. CMB is also the leading retail bank in China with 42 percent market share in credit cards and 4 percent in mortgages. Despite strong annualized loan growth of 17 percent, it has a low NPL ratio of 2.3 percent and high provision coverage of 123 percent. Although it is smaller than the larger state-owned banks, CMB benefits from the more profit-oriented management team and lower burden from past lending to state-owned enterprises. We believe CMB is a key beneficiary of the burgeoning development of consumer banking in China.

During the month we built an initial position in Yanlord, a China property developer focusing on high-end mass residential projects. Yanlord has become one of the most recognized developers in China since entering the Shanghai and Nanjing residential markets in 1993 and 1994. It is well known for its product quality with unique designs from international design houses. To date, the company has developed or is in the process of developing a total of 24 properties in Shanghai and Nanjing, with a total floor area of 2.9 million square meters across. We believe the stock is undervalued, primarily because of the lack of broker coverage.

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 twelve. The team has managed Asian equity portfolios since 1994.