

## Newsletter September 2004

- China shares regain momentum
- Economic figures reinforce soft-landing scenario
- Roly's turnover declines marginally
- Potential upside for Fountain Set
- Group Sense expects operational turnaround

Figures as of September 30, 2004

### Net Asset Value

Per Share: USD 142.81

Market Capitalization: USD 1.7 million

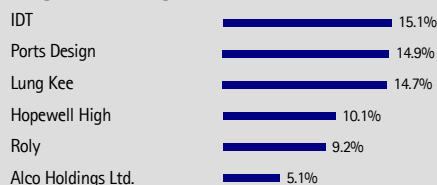
### Share Price in USD Since May 27, 03



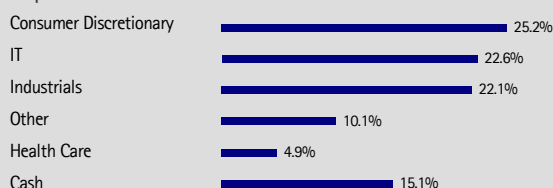
### Performance

Sep	YTD	1 Y	May 27, 03
2.8%	10.1%	27.3%	42.8%

### Largest Holdings



### Exposure



China shares performed in line with other Asian markets gaining momentum during the first half of September, while profit taking set in towards the end of the month on the back of higher oil prices. President Hu replaced Jiang Zemin as Chairman of the Central Military Commission. Jiang's retirement completes the hand-over to a younger generation of leaders, giving President Hu control of the top positions in Chinese politics. Plans by China's foreign-currency regulator to ease restrictions on overseas investors halted the ongoing slide in A-shares. During the month, we sold plush toy manufacturer Dream following results which were marked by substantial margin pressure. We added Fountain Set and Group Sense to the portfolio.

August's economic figures reinforce the soft-landing scenario. CPI rose 5.3 percent year-on-year and was below expectations as food cost pressures are easing. M2 money supply rose 13.6 percent and loans rose 14.1 percent showing further signs of deceleration. Fixed asset investment rose 26.3 percent, slowing again after the brief pickup in June and July.

Roly's turnover declined by 1 percent year-on-year to USD 36.5 million during the quarter ended July 31, 2004. The gross margin improved 3.2 percentage points to 47.7 percent thanks to reduced losses at Roly China. Pretax net profit of the home lifestyle products division decreased by 28 percent to USD 2 million due to continued weak demand from the US. Linmark's pretax net profit from improved 3 percent to USD 1.9 million as higher value-added services offset softer demand from North America. Pretax profit before exceptional items was down 21 percent to USD 2.2 million due to higher operating expenses on expansion in China.

Fountain Set is one of the world's leading knitted fabric manufacturers, with its main production capacity based in China. While results have been hit hard by the sharp increase in cotton prices during the six months ended February 2004, we expect a normalization of cotton prices, better volume growth and an increase in selling prices to set the stage for an earnings recovery in fiscal year 2005 and 2006. The elimination of the quota system on textile products by 2005 is likely to further boost business in the long run.

Based on expectations of a turnaround of its business, we invested in Group Sense, the leading global manufacturer of electronic dictionaries. Group Sense markets its own dictionaries and does original design manufacturing of electronic products including smartphones and personal digital assistants (PDA) for a number of Japanese and Korean customers. Recovering from losses made in the PDA business in fiscal years 2002 and 2003, the company has transformed the business into smartphone production under its own brand and has reported encouraging results.

# 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

HSZ Group	Dr. Hans-Rudolf Schmid, Zurich Pang Shun Pen, Singapore Dr. Andreas Eppenberger, Zurich Christoph Himmelstein, Hong Kong Prof. Dr. Georg Rich, Zurich (Adviser)
Custodian	Credit Suisse

HSZ Group	Woodbourne Hall P.O. Box 3162 Road Town, Tortola British Virgin Islands Tel: +1 284 494 54 14 Fax: +1 284 494 54 17 E-mail: <a href="mailto:mail@hszgroup.com">mail@hszgroup.com</a>
Hong Kong	Tel: +852 2179 54 01
Singapore	Tel: +65 6557 05 77
Zurich	Tel: +41 44 288 95 95

## 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.

This newsletter is personal to each investor and does not constitute an advertisement to the public. The public offer and distribution of shares in CIC has not been authorized in Switzerland. The material may only be used by those persons to whom it has been handed out and may in particular not be publicly issued, circulated or distributed in or from Switzerland.