CIC
China Investment Corporation

Newsletter September 2006

- China shares rally on back of IPOs and currency speculation
- AAC net profit increases 107 percent
- Shui On Land IPO more than 10 times oversubscribed
- Egana Goldpfeil's net profit increases 31 percent
- Glorious Sun's profit growth driven by China retail operations

Sentiment for China shares remained upbeat in September, supported by an enthusiastic response to recent IPOs and ongoing currency speculation. The CNY reached its highest level against the USD since introduction of the peg, fuelling a rally in property stocks. During the month, we took profit in Foxconn, China Overseas Land and Shenzhen Investment, while adding to our Egana position and participating in the Shui On Land IPO.

For the six months ended June 30, 2006, AAC Acoustic reported sales of CNY 816 million, up 87 percent year-on-year, and net profit of CNY 276 million, up 107 percent. On a sequential basis, the gross margin improved 0.2 percentage points (ppt) to 50.6 percent. Strong demand due to continuing upgrades of handset acoustic components, a better product mix and operating leverage contributed to the earnings growth. We remain optimistic as the company captures more top tier customers and gains market share.

Shui On Construction has resumed the listing of its China property arm Shui On Land after a 3-month delay. At a 10 percent lower valuation, the deal was priced at the high end of the target range, resulting in a market capitalization of USD 2.8 billion for Shui On Land. The IPO proceeds are USD 800 million, half of which is new capital. After the listing, Shui On Construction will have an 18 percent stake; strategic shareholders include Ergo and HSBC. Shui On Land's reputation has been further enhanced by the fact that Sir John Bond, the former Chairman of HSBC, has become an independent director.

For the year ended May 31, 2006, Egana Goldpfeil reported sales of HKD 6 billion, up 61 percent year-on-year. Net profit was up 31 percent to HKD 339 million. Strength was seen in leather products and watches as well as its China business, while a one-time charge from the integration of Salamander lowered the net profit. Turnover of the leather division was up 1.5 times to 47 percent of total due to the maiden full year consolidation of Salamander. Turnover of jewelry was up 28 percent to 18 percent of total and watches turnover increased 21 percent to 35 percent of total. The successful integration of Salamander and further market penetration in Europe and China bode well for future growth.

Glorious Sun reported net profit of HKD 125 million for the first half of 2006, an increase of 11 percent, on a 14 percent increase in turnover to HKD 2 billion. Operating profit was HKD 164 million, translating into an operating profit margin of 8.2 percent versus 7.9 percent last year. The retail division reported operating profit of HKD 108 million, an increase of 8 percent, as strength in its China operations offset weaker Australian operations.

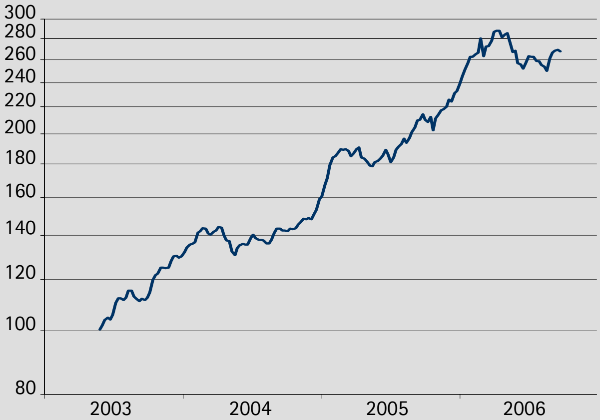
Figures as of September 30, 2006

Net Asset Value

Per Share: USD 267.69

Market Capitalization: USD 27.0 million

Share Price in USD since May 27, 03



Performance

Sep	YTD	1 Y	May 27, 03
3.1%	14.9 %	25.0%	167.7%

Largest Holdings

Fu Ji Food	12.3%
AAC Acoustic	7.3%
Ports Design	7.2%
Shui On Construction	5.9%
Pico Far East	5.5%
Egana	4.3%

Exposure

Consumer Discretionary	31.2%
Industrials	22.3%
Consumer Staples	12.3%
Information Technology	7.3%
Property	4.7%
Utilities	3.1%
Materials	2.1%
Financials	1.8%
Cash	15.2%

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. Hans-Rudolf Schmid, Partner, Hong Kong
	Christoph Himmelstein, Partner, Hong Kong
	Dr. Andreas Eppenberger, Partner, Zurich
	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: mail@hszgroup.com
Hong Kong	Tel: +852 2179 54 01
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 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.