

CHAIRMAN'S STATEMENT

I am pleased to present the ninth interim report of The HSBC China Fund Limited for the six months ended 30 June 2001. On 8 June 2001, the Company paid a final dividend for 2000 of USD1.95 million representing USD0.08 per share. In accordance with the Company's policy to distribute surplus cash, on 5 September 2001, the directors declared a special interim dividend for 2001 of USD0.73 million representing USD0.03 per share payable on 5 October 2001 to shareholders whose names appear on the Company's Register of Members on 26 September 2001.

The Company sold its investment in Wai Kee China Investments (BVI) Company Limited ("Wai Kee") on 28 July 2000 and received total consideration of USD3.68 million in five instalments thereafter with the last instalment having been received during the period under review. Inclusive of dividends and interest received of USD0.99 million over the life of the investment, the Company received USD4.67 million in total, compared with the USD2.50 million investment cost. The overall internal rate of return on the investment was 15.2 % per annum, representing surplus and income totalling USD2.17 million.

At the Board meeting held on 5 September 2001, the Board discussed the operation and prospects of the Company and resolved the following:-

1. the Company held three active investments with a net asset value ("NAV") of less than USD10 million as at 30 June 2001;
2. as a result of the small size of the portfolio, the annualised costs of the Company represent approximately 5% of the Company's NAV;
3. in light of this, the Board has resolved that it would be in the best interests of the shareholders to take steps to wind up the Company during 2002;
4. given the requirement to generate liquidity for the remaining unlisted investments, the Board resolved to make a provision to reduce the NAV of the unlisted investment portfolio by USD1.75 million (20%) to reflect prevailing market conditions.

As at 30 June 2001, the NAV per share of the Company after taking into account the provision of USD1.75 million referred to above was USD0.333 (HKD2.60) representing a decrease of 32.2% compared to the NAV as at 31 December 2000 of USD0.491 (HKD3.83). The NAV at 31 December 2000 has been restated from USD0.411 (HKD3.21) per share as a result of the reclassification of the proposed final dividend of USD0.08 per share for 2000 from a liability to a proposed dividend reserve (in the capital and reserves section of the balance sheet at 31 December 2000) in accordance with the revised Statement of Standard Accounting Practice 9 “Events after the balance sheet date”. The share price fell by 4% from HKD3.75 at 31 December 2000 to HKD3.60 at 30 June 2001, which represented a premium to the NAV of 38.5%.

By Order of the Board

Donald P H Liao

Chairman

Hong Kong, 5 September 2001