

## **EXPLANATORY STATEMENT**

**If you are in any doubt** as to any aspect of this document or as to the action you should take, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold** all your shares in The HSBC China Fund Limited, you should at once hand this document and the accompanying form of proxy to the purchaser or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

The Stock Exchange of Hong Kong Limited (“The Stock Exchange”) takes no responsibility for the contents of this statement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this statement.

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“Hong Kong Listing Rules”) require the Company to give the following Explanatory Statement to Shareholders in connection with the general mandates for issue and repurchase of shares. References in this Statement to “Shares” means shares in the capital of the Company of par value US\$0.01 each.

### **GENERAL MANDATE FOR ISSUE OF SHARES**

The resolutions set out as Resolutions 6(1) and 6(3) in the notice convening the Annual General Meeting which will be proposed as ordinary resolutions at the Annual General Meeting, relate to the granting of a general mandate to the Directors to allot, issue or otherwise deal with any unissued shares in the share capital of the Company up to a limit equal to 20 per cent. of the aggregate nominal amount of the Company in issue immediately after the passing of such resolutions and the nominal amount of any shares repurchased by the Company pursuant to the mandate referred below.

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## **GENERAL MANDATE FOR REPURCHASE OF SHARES**

In addition, the resolution set out as Resolution 6(2) which will be proposed as ordinary resolution at the Annual General Meeting, relate to the granting of a general mandate to the Directors to repurchase on either the Stock Exchange of Hong Kong Limited or the London Stock Exchange, Shares representing up to the maximum of 10 per cent. of the Shares in issue as at the date of the passing of such Resolution.

As at the latest practicable date prior to the printing of this document for determining such figure, the number of Shares in issue was 24,375,813. On the basis of this figure (and assuming no further shares are issued or repurchased up to the date of passing such Resolution at the Annual General Meeting) the Directors would be authorised to repurchase Shares up to a limit of 2,437,581 Shares.

## **REASONS FOR REPURCHASE**

The Directors believe that the ability to repurchase Shares is in appropriate circumstances in the best interests of the Company and its Shareholders.

Repurchases may, depending on the circumstances, result in an increase in net assets and/or earnings per share. The Directors are seeking the grant of a general mandate to repurchase Shares to give the Company the flexibility to do so if and when appropriate, taking into account that such repurchases may under current English law, result in restrictions being imposed on the Company's ability to promote its shares in the United Kingdom. The number of Shares to be repurchased on any occasion and the price and other terms upon which the same are repurchased will be decided by the Directors at the relevant time having regard to the circumstances then pertaining.

## **FUNDING OF REPURCHASE**

It is envisaged that any repurchase would be funded out of funds legally available for the purpose in accordance with the articles of association of the Company and the Companies Law.

There could be an adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in the Company's most recently published audited accounts contained in this Annual Report) in the event that the proposed repurchases of Shares were to be

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carried out in full at any time during the proposed repurchase period. However, the Directors do not propose to exercise the general mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital of the Company or its gearing level which in the opinion of the Directors is from time to time appropriate for the Company.

## **GENERAL**

The Directors have undertaken to the Hong Kong Stock Exchange to exercise the power of the Company to make repurchases pursuant to the general mandate in accordance with the Hong Kong Listing Rules and the laws of the Cayman Islands.

None of the Directors nor (to the best of the knowledge of the Directors) any associates (as defined in the Hong Kong Listing Rules) of the Directors presently intend to sell shares to the Company in the event that the general mandate is granted by the Shareholders.

No connected persons (as defined in the Hong Kong Listing Rules) of the Company have notified it of a present intention to sell shares to the Company or have undertaken not to sell any of the shares held by them in the event that the general mandate is granted by the shareholders.

The Directors are not aware of any consequences which will arise under the Code on Takeovers and Mergers in either Hong Kong or the United Kingdom as a result of the exercise of the share repurchase mandate.

## **SHARE PURCHASE MADE BY THE COMPANY**

The Company did not purchase, sell or redeem any of the Company's securities (whether on the Stock Exchange or otherwise) in the 6 months preceding the Latest Practicable Date.

## SHARE PRICES

The highest and lowest prices at which the shares traded on the Hong Kong Stock Exchange in each of the previous twelve months are as follows:

	Highest (HK\$)	Lowest (HK\$)
April 2001	4.125	3.875
May 2001	4.550	3.700
June 2001	3.900	3.550
July 2001	3.850	3.600
August 2001	3.875	3.550
September 2001	3.900	2.800
October 2001	3.400	3.050
November 2001	3.500	3.150
December 2001	3.550	3.300
January 2002	3.500	3.200
February 2002	3.525	3.250
March 2002*	3.575	3.245

\* Up to the latest practicable date on 22 March 2002.

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