

CHAIRMAN'S STATEMENT

I am pleased to present the ninth annual report of The HSBC China Fund Limited for the year ended 31 December 2000.

On 18 February 2000, the Company paid a third special interim dividend declared in 1999 of USD 0.975 million representing USD 0.04 per share. On 28 September 2000, the Company paid a first special interim dividend declared on 5 September 2000 of USD 3.66 million representing USD 0.15 per share. A final dividend of USD 1.95 million representing USD 0.08 per share was recommended by the Directors to shareholders on the register of members on 29 May 2001. This recommendation has been incorporated in the financial statements and the final dividend will be paid on 8 June 2001.

Partly, as a result of these substantial dividends, the Net Asset Value ("NAV") of the Company fell by USD 0.204 per share or 33.2% from USD 0.615 (or HKD 4.78) per share as at 31 December 1999 compared to USD 0.411 (or HKD 3.21) per share as at 31 December 2000. The share price dropped by 31.8% from HKD 5.50 at 31 December 1999 to HKD 3.75 at 31 December 2000 which represented at a premium to NAV of 17% at that date.

During the year, the Company fully realised three investments in (i) Skynet (International Group) Holdings Limited ("Skynet"); (ii) Chai-Na-Ta Ginseng (Asia) Limited ("CNTA") and Chai-Na-Ta Corporation ("CNT"); and (iii) Wai Kee China Investments (BVI) Company Limited ("Wai Kee").

The Company's investment in Skynet generated total proceeds from the sale of shares and bonus warrants, redemptions and interest of USD 1.29 million, representing a surplus of USD 0.52 million. The internal rate of return ("IRR") achieved on the investment was 28% per annum. As at 31 December 2000, the Company held 247,142 bonus warrants, issued at no cost by Skynet.

Over the life of the investments in CNTA and CNT, the Company realised total proceeds of USD 2.31 million, compared with a cost of USD 6.09 million, representing a recovery of 38% of cost.

The investment in Wai Kee was redeemed during the year for a consideration of USD 3.68 million, representing a premium of 47% i.e. USD 1.18 million over its cost of investment of USD 2.5 million. The overall IRR on the investment in Wai Kee was 15% per annum, including capital gain and interest income. As of 31 December 2000, the Company had received USD 2.73 million and the balance of the consideration of USD 0.95 million is scheduled to be received in two tranches prior to May 2001.

As at 31 December 2000, the Company held three active investments. The Company will not be making any further investments and will continue to manage its existing portfolio of direct investments so as to achieve appropriate value for those securities before they are realised in due course.

By Order of the Board

Donald P H Liao

Chairman

Hong Kong, 6 March 2001