

STATEMENT FROM THE BOARD OF DIRECTORS AND BUSINESS REVIEW

On behalf of the Board, I am pleased to present the twelfth interim report of The HSBC China Fund Limited (“HCF” or “the Company”) for the six months period ended 30 June 2004.

The Company’s 2003 annual report and 2004 announcements have repeatedly informed shareholders that HCF completed the realisation of its investments, and initiated steps to wind up the Company since January 2004.

As at 30 June 2004, the Net Asset Value (“NAV”) of the Company net of the provision for winding up costs was US\$60,639, being US\$0.0025 (equivalent to HK\$0.02) per share, representing a decrease of 79.3% compared with the NAV per share as at 31 December 2003 of US\$0.0121 (equivalent to HK\$0.09). As the Company has no operating income, the NAV of the Company, primarily cash, is expected to decline over time.

The share price of the Company closed at HK\$1.03 on 30 June 2004, representing a substantial premium to the NAV of HK\$0.02 per share as at that date. The Directors of the Company are not aware of any reason why the share price should reflect such a significant premium to the NAV. Since the completion of the realisation of the Company’s entire portfolio in December 2003, the Directors have also noted that HCF’s share price has been trading at a significant premium to the published NAV. The Directors are not aware of any reasons for such premium to NAV.

Notwithstanding the results of the first Extraordinary General Meeting held on 2 March 2004 (of which the resolution proposed by the Company with respect to the withdrawal of the

listing of the shares of the Company from The Stock Exchange of Hong Kong Limited and the London Stock Exchange (collectively the “Exchanges”) was not passed), the Directors continue to believe that it is appropriate for the Company to withdraw the listings of the shares from the Exchanges, followed by the winding-up of the Company.

However, the Directors are also exploring possible courses of action to be adopted by the Company including, but not limited to, the prospects of recapitalising the Company by third party investors and also considering different views which the shareholders have expressed to the Company recently. Accordingly, the Directors propose that a second extraordinary general meeting be held as soon as practicable.

Following the resignation of Mr. Donald Liao as a Director of the Company on 16 June 2004, the Board of Directors as at 30 June 2004 comprises of Mr. Vincent Warner, being an executive director, Dr. K.S. Lo, Sir Alan Donald and Mr. Nigel Tulloch, being independent non-executive directors and Mr. Jack Mayer, being a non-executive director.

By Order of the Board

Dr K S Lo
Director

2 September 2004, Hong Kong