



The HSBC China Fund Limited

(Incorporated as an exempted company in the Cayman Islands with limited liability)

Preliminary announcement of audited results for the year ended 31 December 2001

The Directors of The HSBC China Fund Limited announce that the audited results of the Company for the year ended 31 December 2001 are as follows:

	2001 US\$	2000 US\$
<b>GROSS REVENUE</b>		
Interest income	148,845	392,900
<b>Net realised gains/(losses) from sale of non-trading securities</b>		
Listed securities	–	(792,621)
Unlisted securities	–	1,183,404
<b>Net realised gains from sale of unlisted investment</b>	–	600,000
<b>Dividend income from:</b>		
Listed securities	20,618	60,430
Unlisted securities	–	128,488
	<u>169,463</u>	<u>1,572,601</u>
<b>EXPENSES</b>		
Investment manager's fee	(166,248)	(344,557)
Write-back of provision for doubtful accounts receivable	–	64,829
Transfer of deficit on investment revaluation reserve on impairment of securities	(2,412,588)	–
Other operating expenses	(427,160)	(335,338)
	<u>(3,005,996)</u>	<u>(615,066)</u>
<b>PROFIT / (LOSS) BEFORE TAX</b>	<u>(2,836,533)</u>	957,535
<b>TAX</b>	<u>144,510</u>	<u>(135,913)</u>
<b>PROFIT / (LOSS) FOR ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>	<u>(2,692,023)</u>	<u>821,622</u>
<b>OTHER TRANSFERS FROM RESERVES</b>		
Share premium	(10,062,313)	(4,784,815)
<b>EARNINGS / (LOSS) PER SHARE</b>	<b>(US\$0.1104)</b>	US\$ 0.0337
<b>NET ASSET VALUE PER SHARE</b>	<b>US\$0.295</b>	US\$ 0.491

#### SEGMENT INFORMATION

During the year, the Company was principally involved in investing in companies with significant business involvement in the People's Republic of China. Accordingly, no analysis of segment information by principal activity is presented.

An analysis of the Company's revenue by geographical area of the operations of the investee companies for the financial year is as follows:

	2001 US\$	2000 US\$
Gross revenue:		
The People's Republic of China, including Hong Kong	113,876	1,659,980
Elsewhere	55,587	( 87,379)
	<u>169,463</u>	<u>1,572,601</u>

The directors consider that it is not practical to analyse the operating expenses by the geographical area of the operations of the investee companies and accordingly, no analysis of profit/(loss) before tax by geographical area of the operations of the investee companies is presented.

## TAX

Under the current laws of the Cayman Islands, the Company is not required to pay any taxes in the Cayman Islands on either income or capital gains. The Company has received an undertaking from the Governor in Council of the Cayman Islands pursuant to the provisions of Section 6 of the Tax Concessions Law (Revised), which exempts the Company from any such tax at least until the year 2012.

No provision for Hong Kong profits tax has been made as the Company did not generate any assessable profits in Hong Kong during the year. Hong Kong profits tax was provided for the year ended 31 December 2000 at the rate of 16% on the estimated assessable profits arising in Hong Kong during the year.

	2001 US\$	2000 US\$
Provision for the year	–	(135,913)
Overprovision in prior years	231,770	–
Deferred tax	(87,260)	–
Tax credit / (charge) for the year	<u>144,510</u>	<u>(135,913)</u>

## EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings loss per share is based on the net loss from ordinary activities attributable to shareholders of US\$2,692,023 (2000: profit of US\$821,622) and on the weighted average of 24,375,813 (2000: 24,375,813) ordinary shares in issue during the year.

Diluted earnings per share has not been presented as no diluting events exist during either year.

## NET ASSET VALUE PER SHARE

The calculation of the net asset value per share is based on net assets of US\$7,179,112 (2000 restated: US\$11,960,617) and the 24,375,813 (2000: 24,375,813) ordinary shares in issue at the balance sheet date.

## DIVIDENDS

The Directors of the Company recommend a final dividend of US\$0.02 (2000: US\$0.08) per ordinary share for the year ended 31 December 2001 :-

	2001 US\$	2000 US\$
Proposed final dividend of US\$0.02 (2000:US\$0.08) per ordinary share	487,516	1,950,065
Special interim dividend of US\$0.03 (2000: US\$0.15) per ordinary share	<u>731,274</u>	<u>3,656,372</u>
	<u>1,218,790</u>	<u>5,606,437</u>

During the year, the Company adopted the revised SSAP 9 “Events after the Balance Sheet Date”. To comply with this revised SSAP, a prior year adjustment has been made to reclassify the proposed final dividend for the year ended 31 December 2000 of US\$1,950,065, which was recognised as a current liability at the prior year end, to the proposed final dividend reserve account within the capital and reserves section of the balance sheet. The result of this has been to reduce the Company’s current liabilities and increase the reserves previously reported as at 31 December 2000 by US\$1,950,065.

The effect of this change in accounting policy as at 31 December 2001, is that the current year’s proposed final dividend of US\$487,516 was included in the proposed final dividend reserve account within the capital and reserves section of the balance sheet at that date, whereas in previous years it would have been recognised as a current liability at the balance sheet date.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year, the Company neither purchased, sold nor redeemed any of its own listed securities.

## CLOSURE OF TRANSFER BOOKS AND REGISTERS OF MEMBERS

The Transfer Books and Registers of Members will be closed from 29 April 2002 to 30 April 2002, both days inclusive. During this period, no transfer of shares will be effected and registered.

In order to qualify for the entitlement of the proposed final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company’s registrar, Central Registration Hong Kong Limited, 19th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong, not later than 4:00p.m. on 26 April 2002.

## COMPLIANCE WITH THE CODE OF BEST PRACTICE (LISTING RULES APPENDIX 14)

The Company has complied with paragraphs 1 to 13 of the Code of Best Practice as set out in Appendix 14 to the Listing Rules of The Stock Exchange of Hong Kong Limited throughout the accounting period for the year ended 31 December 2001, except that the independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation in accordance with Articles 89 (B) and (C) of the Company’s Articles of Association.

## AUDIT COMMITTEE

The Company has established an audit committee on 4 September 1998 in accordance with paragraph 14 of the Code of Best Practice.

## DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED ("HKSE")

The HKSE's website will contain all the information required by paragraphs 45(1) to 45(3) inclusive of Appendix 16 of the Rules Governing the Listing of Securities on HKSE within 21 days.

## CHAIRMAN'S STATEMENT

I am pleased to present the preliminary results of The HSBC China Fund Limited for the year ended 31 December 2001.

On 8 June 2001, the Company paid a final dividend for 2000 of US\$ 1.95 million representing US\$ 0.08 per share. On 5 October 2001, the Company paid a first special interim dividend declared on 5 September 2001 of US\$ 0.73 million representing US\$ 0.03 per share. A final dividend of US\$ 0.49 million representing US\$ 0.02 per share was recommended by the Directors to shareholders on the register of members on 30 April 2002. This recommendation has been incorporated in the financial statements as an allocation of retained earnings within the capital and reserves section of the balance sheet and the final dividend will be paid on 10 May 2002.

As at 31 December 2001, the Company held three active investments with a net asset value ("NAV") of US\$6.95million. At the Board meeting held on 5 September 2001, the Board resolved to take steps to wind up the Company during 2002.

On 6 and 11 March 2002, the Company sold its entire holding in Road King Infrastructure Limited through the stock market for a total consideration of HK\$3.5 million (equivalent to US\$0.45 million).

The Directors believe that it will be possible to realise the balance of the Company's investment portfolio during 2002, resulting in distributions to its shareholders, which will include cash and may include an in specie distribution of listed shares. Subject to this, the Directors expect to be able to wind up the Company before 31 December 2002.

As at 31 December 2001, the NAV per share of the Company was US\$0.295 (equivalent to HK\$ 2.30) representing a decrease of 39.9% compared to the NAV as at 31 December 2000 of US\$ 0.491 (equivalent to HK\$ 3.83). The share price fell by 10 % from HK\$ 3.75 at 31 December 2000 to HK\$ 3.375 at 31 December 2001.

By Order of the Board  
**Donald P H Liao**  
Chairman  
Hong Kong, 20 March 2002

## REVIEW OF THE UNLISTED PORTION INVESTMENTS

As at 31 December 2001, the Unlisted Portion assets held interests in three companies, including a company listed in Hong Kong. A description of the three active investments is set out below.

### A-S CHINA PLUMBING PRODUCTS LIMITED ("ASPPL")

ASPPL was established in 1994 to produce and distribute a complete line of sanitary ware products through the acquisition of seven joint ventures in China. ASPPL is a subsidiary of American Standard Inc. ("ASI"), a US based international manufacturer of plumbing products, air-conditioners, automobile and medical systems products. ASI has granted to ASPPL the exclusive right to license trademarks owned by ASI for plumbing products in China.

The Company has been pursuing negotiations with ASI and other parties with a view to realising the Company's investment.

### NEW WORLD SUN CITY LIMITED ("NWSC")

NWSC was established in 1992 to develop Dongguan New World Gardens (the "Project") near Dongguan, Guangdong Province. The Project involves the development and sale of detached houses, semi-detached houses, low-rise and high-rise apartments and 93,000 square metres of commercial and retail space on a 466,666 square metresite near Dongguan. The Project has total permissible floor area of approximately 1.12 million square metres and is being developed over several phases.

Negotiations regarding the sale of the Company's interest in NWSC are being pursued and the Investment Manager expects to be able to complete the sale of the investment during 2002.

83% of the Company's original cost of investment has been repaid and the reduced cost of the Company's investment in NWSC was US\$ 1.28 million as at 31 December 2001. Including interest received, the original cost of investment in NWSC of US\$ 7.30 million has been fully recovered.

### ROAD KING INFRASTRUCTURE LIMITED ("ROAD KING")

Road King was established in 1994 to participate in the development of road infrastructure in the PRC through joint ventures with Chinese partners. Road King has interests in the investment, development and management of 974 kilometres of toll highways in 29 projects across eight provinces in China. Road King achieved a listing of its shares on The Stock Exchange of Hong Kong Limited in 1996.

As at 31 December 2001, the Company held 1.15 million Ordinary shares and 0.23 million bonus warrants in Road King valued at market value of US\$ 0.46 million.

In March 2002, the Company sold its entire holding in Road King's shares and warrants through the stock market for a total consideration of HK\$ 3.5 million or approximately US\$ 0.45 million.

## NOTICE OF THE ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Tenth Annual General Meeting of The HSBC China Fund Limited will be held at Level 35, Room C, 1 Queen's Road Central, Hong Kong on 30 April 2002 at 11:00 a.m. for the following purposes:-

## ORDINARY BUSINESS

1. To receive and adopt the Audited Accounts of the Company for the year ended 31 December 2001 and the reports of the Directors and Auditors thereon.
2. To declare a final dividend.
3. To re-elect Directors.
4. To authorise Director to fix the Directors' remuneration.
5. To re-appoint Ernst & Young as Auditors and authorise the Directors to fix their remuneration.

## SPECIAL BUSINESS

6. To consider and, if thought fit, pass the following resolutions as Ordinary Resolutions:-

### (1) "THAT:-

- (i) Subject to paragraph (iii) below, the exercise by the Directors of the Company during the Relevant Period of all the powers of the Company to allot, issue or otherwise deal with any unissued shares in the capital of the Company pursuant to the Companies Laws (Cap. 22) (as amended) of the Cayman Islands and to make or grant offers, agreements, options and/or warrants which may require the exercise of such powers be and is hereby generally and unconditionally approved;
- (ii) the approval in paragraph (i) above shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements and/or options which may require the exercise of the powers of the Company referred to in that paragraph at any time during or after the end of the Relevant Period;
- (iii) the aggregate nominal amount of unissued shares in the capital of the Company which may be allotted, issued or otherwise dealt with by the Directors of the Company during the Relevant Period pursuant to paragraph (i) above, otherwise than pursuant to a Rights Issue or the exercise of subscription rights attaching to any warrants issued by the Company, shall not exceed the aggregate of 20 per cent, of the aggregate nominal amount of shares in the capital of the Company in issue as at the date of passing this resolution;
- (iv) for the purpose of this resolution:-
  - (a) "Relevant Period" means the period from the passing of this resolution until whichever is the earlier of:-
    - (1) the conclusion of the next annual general meeting of the Company;
    - (2) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or by law to be held; and
    - (3) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting; and
  - (b) "Rights Issue" means an offer of shares in the capital of the Company open for a period fixed by the Directors of the Company to holders of shares in the capital of the Company whose names appear on the Register of Members on a fixed record date in proportion to their holdings of shares (subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws or regulations in any territory outside the Cayman Islands)."

### (2) "THAT:-

- (i) subject to paragraphs (ii) and (iii) below, the exercise by the Directors of the Company during the Relevant Period of all the powers of the Company to purchase Shares be and it is hereby generally and unconditionally approved;
- (ii) the aggregate nominal amount of Shares which may be purchased pursuant to the approval in paragraph (i) above shall not exceed 10 per cent of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution, and the said approval shall be limited accordingly;
- (iii) for the purpose of this Resolution:-
  - (a) "Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:-
    - (1) the conclusion of the next Annual General Meeting of the Company;
    - (2) the expiration of the period within which the next Annual General Meeting of the Company is required by the articles of association of the Company or by law to be held;
    - (3) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders in general meeting; and
  - (b) "Shares" means shares of all classes in the capital of the Company and warrants and other securities issued by the Company which carry a right to subscribe or purchase shares of the Company."
  - (c) "THAT, conditional upon the passing of Resolutions (6)(1) and (2) set out above granting the general mandate to the Directors of the Company to exercise the powers of the Company to allot, issue and otherwise deal with shares in the capital of the Company and to make, issue or grant offers, agreements, options and/or warrants which might require the exercise of such powers be and is hereby extended by the addition to the total nominal amount of share capital which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors of the Company pursuant to such general mandate an amount representing the total nominal amount of shares in the capital of the Company purchased by the Company pursuant to the exercise by the Directors of the Company in accordance with Resolution (6)(2) above of the powers of the Company to purchase such shares, provided that such amount shall not exceed 10 per cent of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution."

By Order of the Board

M G BOND

Secretary

Hong Kong, 20 March 2002

**Notes :**

- (i) A member entitled to attend and vote at the above meeting is entitled to appoint not more than two proxies to attend and vote for him in accordance with the Articles of Association of the Company; a proxy need not be a member.
- (ii) In the case of joint holders the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and for this purpose seniority shall be determined by the order in which the names stand in the Registers of Members in respect of the joint holding.
- (iii) To be valid, a form of proxy must be deposited at Prince's Building, 8th Floor, 10 Chater Road, Central, Hong Kong together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof) not less than 48 hours before the time appointed for the holding of the above meeting.
- (iv) The Transfer Books and Registers of Members will be closed from 29 April 2002 to 30 April 2002 inclusive during which period no share transfers can be registered.

**INVESTMENT PORTFOLIO 31 December 2001**

UNLISTED PORTION (96.7%) (note 1)

**NON-TRADING SECURITIES - EQUITY SECURITIES**

Listed in Hong Kong	Shareholding	Cost	Unrealised	Provision for	Market value /	% of
		US\$	gain/(loss)	diminution	Fair value	
Road King Infrastructure Limited - warrant	229,740	–	2,357	–	2,357	0.0%
Road King Infrastructure Limited	1,148,700	1,117,922	(664,945)	–	452,977	6.3%
<b>Hong Kong Shares Total</b>		<b>1,117,922</b>	<b>(662,588)</b>	<b>–</b>	<b>455,334</b>	<b>6.3%</b>
<b>Unlisted</b>						
A-S China Plumbing Products Limited (note 2)	6.4%	6,964,200	–	(1,750,000)	5,214,200	72.6%
New World Sun City Limited - ordinary shares	167	84,238	–	–	84,238	1.2%
Siu Fung Ceramics Concept Company Limited	1.2%	3,000,000	–	(3,000,000)	–	0.0%
<b>Unlisted Securities Total</b>	<b>(note 3)</b>	<b>10,048,438</b>	<b>–</b>	<b>(4,750,000)</b>	<b>5,298,438</b>	<b>73.8%</b>
<b>Total Non-Trading Equity Securities</b>		<b>11,166,360</b>	<b>(662,588)</b>	<b>(4,750,000)</b>	<b>5,753,772</b>	<b>80.1%</b>

**NON-TRADING SECURITIES - DEBT SECURITIES**

	Shareholding	Cost	Unrealised	Provision for	Market value /	% of
		US\$	gain/(loss)	diminution	Fair value	
New World Sun City Limited - loan	16.7%	1,193,538	–	–	1,193,538	16.6%
Wing Hong Holdings Limited - Convertible preference shares	2.4% (note 3)	1,124,492	–	(1,124,492)	–	0.0%
<b>Total Non-Trading Debt Securities</b>		<b>2,318,030</b>	<b>–</b>	<b>(1,124,492)</b>	<b>1,193,538</b>	<b>16.6%</b>
<b>Total Non-Trading Securities</b>		<b>13,484,390</b>	<b>(662,588)</b>	<b>(5,874,492)</b>	<b>6,947,310</b>	<b>96.7%</b>

SHORT TERM INVESTMENTS

200,000 2.8%

**TOTAL INVESTMENTS****7,147,310 99.5%**

OTHER NET ASSETS AND LIABILITIES

31,802 0.5%

**Total Net Assets****7,179,112 100%****Notes :**

- Pursuant to the Company's investment policies, the listed securities are comprised in and remain as part of the unlisted portion of the Company.
- A provision of US\$1.75 million has been made against A-S China Plumbing Products Limited at 31 December 2001.
- A full provision has been made against the cost of this investment.

Please also refer to the published version of this announcement in the (Hong Kong iMail).