
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all of 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 transferee or to the stock broker or other agent through which the sale or transfer was effected for transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this document, 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 document.

HSBC 
THE HSBC CHINA FUND LIMITED

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

DISTRIBUTION OF SHARES
IN
A-S CHINA PLUMBING PRODUCTS LIMITED

A notice convening an Extraordinary General Meeting of The HSBC China Fund Limited to be held at 11.00 a.m. on 17 June, 2002 at Level 15, Main Board Room, 1 Queen's Road Central, Hong Kong is set out at the end of this document. Whether or not you propose to attend the Extraordinary General Meeting, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to K Corporate Services Limited at 8th Floor, Prince's Building, Central, Hong Kong (Attn:Graham Ashford) as soon as possible and in any event not less than 48 hours before the time appointed for holding the Extraordinary General Meeting.

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DEFINITIONS

In this document, unless the context otherwise requires, the following expressions have the following meanings

“Articles”	the Articles of Association of the Company
“A-S China”	A-S China Plumbing Products Limited
“A-S China Reorganisation”	the proposed reorganisation of the share capital of A-S China under which (i) each of the "A" shares of US\$1.00 each in the capital of A-S China would be sub-divided into 100 "A" shares of US\$0.01 each and each of the "B" shares of US\$1.00 each in the capital of A-S China would be sub-divided into 100 "B" shares of US\$0.01 each; (ii) 12,900 ordinary shares of US\$0.01 each in the capital of A-S China would be issued by way of capitalisation for every 100 A-S China shares (whether "A" or "B") held; (iii) new articles of association would be adopted by A-S China; and (iv) all the issued "A" shares and "B" shares would be reclassified and converted into ordinary shares of US\$0.01 each in the capital of A-S China each ranking pari passu in all respects and having the same rights and privileges as set out in the new articles of association; and which reorganisation is conditional upon delivery of the printed Listing Document to the Stock Exchange in accordance with Rule 12.24(2) of the GEM Listing Rules
“A-S China Shares”	ordinary shares of US\$0.01 each in the capital of A-S China following completion of the A-S China Reorganisation
“Companies Ordinance”	the Companies Ordinance of Hong Kong (Chapter 32 of the Laws of Hong Kong)
“Company”	The HSBC China Fund Limited
“Directors”	the directors of the Company
“Distribution”	the proposed conditional distribution of A-S China Shares to the Eligible Shareholders as described in this document
“Extraordinary General Meeting”	an extraordinary general meeting of the Company to be held at 11.00 a.m. on 17 June, 2002 at Level 15, Main Board Room, 1 Queen's Road Central, Hong Kong to consider and, if thought fit, to approve the Distribution, notice of which is set out on page 8 of this document
“Eligible Shareholders”	Shareholders registered as such on the Record Date
“GEM”	the Growth Enterprise Market of the Stock Exchange

DEFINITIONS

“GEM Listing Committee”	the listing sub-committee of the board of the Stock Exchange with responsibility for GEM
“HCF Shares”	shares of US\$0.01 each in the capital of the Company
“HK\$” and “cents”	Hong Kong dollars and cents respectively
“Listing Document”	the listing document to be issued by A-S China for the purpose of the listing of the A-S China Shares on the GEM
“Record Date”	17 June 2002
“Register”	the Register of Members of the Company
“Registrar”	Central Registration Hong Kong Limited, the registrars of the Company
“Shareholder”	a person who is registered as the holder of HCF Shares in the Register (including persons who are jointly so registered)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US”	United States of America
“US\$”	US dollars, the lawful currency of the US

EXPECTED TIMETABLE

Last day of dealings in HCF Shares cum entitlements to the Distribution	11 June, 2002
First day of dealings in HCF shares ex-entitlements to the Distribution	12 June, 2002
Latest time for lodging HCF Share transfers for registration for entitlements to the Distribution	4:00 p.m. on 13 June, 2002
Latest time for lodging proxy forms for the Extraordinary General Meeting	11:00 a.m. on 15 June, 2002
Register closes from	14 June, 2002
to	17 June, 2002
(both days inclusive)	
Extraordinary General Meeting	11:00 a.m. on 17 June, 2002
Record Date for entitlements to the Distribution	17 June, 2002

LETTER FROM THE BOARD OF DIRECTORS

HSBC

THE HSBC CHINA FUND LIMITED

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

Directors:-

Donald P.H. Liao, CBE, JP (Chairman)*
Paul M.Y. Chow
Eddie T.S. Wang
Vincent J. Warner
Dr. K.S. Lo*
Sir Alan E. Donald, KCMG, LLD*
Nigel S. Tulloch*
Jack N. Mayer

Registered Office:-

P.O. Box 309
George Town
Grand Cayman
Cayman Islands
British West Indies

* Independent non-executive

22 May, 2002

To: Shareholders

Dear Sir or Madam,

Distribution of A-S China Shares

Introduction

As announced on 22 May 2002, the Directors have proposed a special dividend by way of a return of capital of the equivalent in scrip of US\$0.2139 per HCF Share (compared with the published net asset value per HCF Share of US\$0.272 as at 30 April 2002) through a distribution in specie of the Company's investment in A-S China to the Eligible Shareholders on the basis of two A-S China Shares for every five HCF Shares held on 17 June 2002. As A-S China is an unlisted company whose shares have not recently been traded, it is not possible to value accurately the Company's investment in A-S China. Accordingly, the amount of US\$0.2139 per HCF Share has been determined by dividing the book value of the A-S China Shares as shown in the latest audited financial statements of the Company as at 31 December 2001 by the aggregate number of HCF shares outstanding on 22 May 2002. That book value amounts to the original cost of the Company's investment in A-S China to reflect a provision of approximately 25 per cent. previously made by the Directors.

Shareholders should be aware that for the reasons stated above the Directors are unable to provide any estimate of the price at which A-S China Shares may trade on the GEM following their listing and such price may therefore be considerably different to the amount attributed to each A-S China Share by the special dividend. In addition, the Directors can express no view as to whether upon listing, a sufficiently active market will exist in A-S China Shares to enable Shareholders, who may wish to dispose of their A-S China Shares to do so in the short term.

The Distribution is conditional upon, among other things, Shareholders' approval and accordingly, this document has been prepared and sent to you with further information on the Distribution and to give you notice of the Extraordinary General Meeting.

A-S China

The Company's investment in A-S China is one of its two remaining active investments. The Directors have been informed that an application has been made by A-S China to the GEM Listing Committee for the listing of, and permission to deal in, the A-S China Shares on the GEM. The proposed listing is intended to be effected by way of introduction which means that there will be no offer of A-S China Shares for sale or subscription at the time of the listing. Subject to the Shareholders approving the Distribution, the Directors understand that A-S China intends to seek the listing of, and for dealings to commence in, A-S China Shares as soon as practicable after such approval. It is expected that this will be considerably earlier than 30 September 2002 (being the last day for satisfaction of such conditions).

As described in the annual report of the Company dated 20 March 2002, A-S China was established in 1994 to produce and distribute a complete line of sanitary ware products through its seven joint ventures in China. A-S China

LETTER FROM THE BOARD OF DIRECTORS

is a subsidiary of American Standard Companies Inc. ("ASI"), a US-based international manufacturer of plumbing products, air-conditioners, automobile and medical systems products. ASI has granted to A-S China the exclusive licence to use certain trademarks owned by ASI for manufacturing and distributing plumbing products in China.

The Distribution

As at the date of this document, the Company is the registered owner of 750 A-S China "B" shares of US\$1.00 each, representing approximately 6.46 per cent. of the issued share capital of A-S China. Pursuant to and upon completion of the A-S China Reorganisation, each existing A-S China "B" share of US\$1.00 will be represented by 13,000 A-S China Shares. Accordingly, immediately after the A-S China Reorganisation, the Company will hold 9,750,000 A-S China Shares, representing the same percentage of the issued share capital of A-S China as it currently holds. With a view to minimising fractional entitlements, the Company intends to repurchase 1,000 HCF Shares on the Stock Exchange prior to the Distribution pursuant to the general mandate granted by Shareholders at the annual general meeting of the Company held on 30 April, 2002. Assuming that the Company will have repurchased such number of HCF Shares and taking into account the effect of the A-S China Reorganisation and other fractional entitlement considerations, it is proposed that up to 9,749,925 A-S China Shares will be distributed in specie to the Eligible Shareholders on the basis of two A-S China Shares for every five HCF Shares held. After the proposed listing of the A-S China Shares on the GEM, it is expected that the Company will aggregate and sell the remaining 75 A-S China Shares and any fractional entitlements and the proceeds of such sale will be retained for the benefit of the Company.

As it is expected that A-S China Shares will be traded on the GEM in board lots of 1,000, Eligible Shareholders will only be allotted A-S China Shares if they would receive at least 1,000 A-S China Shares on the Distribution. Any remaining A-S China Shares will be sold in the market by Anglo Chinese Securities Limited on behalf of the relevant Eligible Shareholders as soon as practicable after the listing of the A-S China Shares and proceeds generated from such sale will be distributed to the relevant Eligible Shareholders on a pro rata basis. In addition, Anglo Chinese Securities Limited has been appointed by the Company to sell or arrange for the sale of A-S China Shares on the Stock Exchange for each Eligible Shareholder who receives less than 5,000 A-S China Shares on the Distribution. Such service shall be provided on a reasonable efforts basis only and shall be for a period of two months from the date of the listing of the A-S China Shares on the GEM. Eligible Shareholders have the option of using the services offered by Anglo Chinese Securities Limited (which will charge the Eligible Shareholders a standard brokerage fee) or appointing their own stockbroker if they wish to sell any of the A-S China Shares they receive on the Distribution. Further details will be announced upon the Distribution becoming unconditional.

Eligible Shareholders should be aware that, in the unlikely event that the Distribution has been effected and the A-S China Shares are not or cease to be listed on the GEM, they will be holding shares of a company which are not listed, or traded on any stock exchange.

Conditions of the Distribution

The Distribution is conditional on:

- (i) the passing of an ordinary resolution by the Shareholders at the Extraordinary General Meeting approving the Distribution;
- (ii) approval of the GEM Listing Committee for the listing of A-S China Shares on GEM and delivery of the Listing Document to the Stock Exchange pursuant to Rule 12.24(2) of the GEM Listing Rules on or before 30 September 2002; and
- (iii) completion of the A-S China Reorganisation on or before 30 September 2002.

Reasons for and effects of the Distribution

The Directors have been informed that A-S China is seeking a listing on the GEM by way of introduction and one of the qualifications for such listing is that there must be an adequate spread of holders of A-S China Shares. This requirement can only be satisfied if the number of current holders of A-S China Shares is increased and the Stock Exchange has indicated that the Distribution would assist in this requirement being satisfied. In view of the fact that it would be in the Company's interest to have the A-S China Shares listed, the Directors have proposed the Distribution, partly to facilitate such a listing.

In addition, as mentioned in the interim report of the Company for the six months ended 30 June 2001, the Directors have resolved to take steps to wind up the Company during 2002 in light of the relatively high expenses

LETTER FROM THE BOARD OF DIRECTORS

to net asset ratio of the Company at this final stage of its life. The Directors consider that the Distribution would assist in achieving this objective.

Following the Distribution and listing of the A-S China Shares on the GEM, each Eligible Shareholder who receives A-S China Shares will hold a smaller block of A-S China Shares than the Company currently holds. This should allow for easier realisation. If the Distribution does not occur, it is likely that a substantial amount of time will be required to realise the Company's relatively large holding. In any event, Eligible Shareholders will be entitled to sell or retain the whole or part of their interest in A-S China at their discretion.

Cayman Islands' company law provides that the share premium account of the Company may be applied for the purpose of paying dividends to the Shareholders provided that no such dividend may be paid to Shareholders out of the share premium account unless, immediately following the date on which the Distribution is proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business. It is proposed that the Distribution will be carried out by applying the share premium account of the Company and, in this connection, the Directors believe that the Distribution will not have any material adverse effect on the financial position of the Company. To effect this for accounting purposes, the relevant amount has been transferred from the share premium account to retained profits as shown in the balance sheet of the Company as at 31 December, 2001. In addition to the Distribution, the Directors will continue to take steps to wind up the Company as previously mentioned.

Timetable

The expected timetable for the Distribution is set out at the beginning of this document. Following the approval of the ordinary resolution at the Extraordinary General Meeting, the Distribution will be effected as soon as practicable after the delivery of the Listing Document to the Stock Exchange and completion of the A-S China Reorganisation. An announcement (together with details of the despatch of A-S China Share certificates) will be made by the Company as and when all the conditions referred to above have been satisfied.

It should be noted that the proposed listing is subject to approval from the GEM Listing Committee for the listing of, and permission to deal in, all the A-S China Shares on the GEM and such approval has not been granted. There can be no assurance that such an approval from the GEM Listing Committee will be granted. Accordingly, the listing of the A-S China Shares on the GEM may or may not occur.

Taxation

Your attention is drawn to the section headed "Additional Information - Taxation" in this document which contains information concerning the taxation treatment of Shareholders resident in the Cayman Islands, Hong Kong and the United Kingdom for taxation purposes if the Distribution is approved and implemented. If any Shareholder is in any doubt as to his personal tax position he should consult his own professional adviser.

Overseas shareholders

Your attention is drawn to the section headed "Additional Information - Overseas Shareholders" in this document. In particular, any person outside Hong Kong who is entitled to A-S China Shares must satisfy himself as to the full observance of the laws of the relevant territory in connection therewith, including obtaining any requisite governmental or other consents and observing any other requisite formalities in such territory.

Action to be taken

Shareholders will find enclosed a Form of Proxy for use at the Extraordinary General Meeting. Whether or not you intend to attend the Extraordinary General Meeting, you are requested to complete and return the enclosed Form of Proxy in accordance with the instructions printed thereon so as to arrive as soon as possible at K Corporate Services Limited at 8th Floor, Prince's Building, Central, Hong Kong (Attn: Graham Ashford). Completion and return of a Form of Proxy will not affect a Shareholder's rights to attend and vote at the meeting.

Recommendation

The Directors believe that the Distribution set out in this letter is in the best interests of the Company and its shareholders as a whole and recommends the Shareholders to vote in favour of the ordinary resolution at the Extraordinary General Meeting.

Yours faithfully,

Donald P.H. Liao
Chairman

ADDITIONAL INFORMATION

1. Taxation

The following comments in relation to taxation are based on advice received by the Company and is included for general information. It relates to Shareholders holding HCF Shares as investments and not as securities to be realised in the course of trade and is based on current legislation and Inland Revenue practices. Shareholders, in particular those not resident in the Cayman Islands, Hong Kong or the United Kingdom, are strongly recommended to consult their own tax advisers as to the specific tax consequences for them of the Distribution.

(a) Cayman Islands

The Cayman Islands currently have no exchange control restrictions and no income, corporate or capital gains tax, estate duty, inheritance tax, gift tax or withholding tax applicable to the Company or any holder of HCF Shares. Accordingly, the implementation of the Distribution will not give rise to any liability to taxation in the Cayman Islands (including, without limitation, Cayman Islands' income or capital gains taxes). The Cayman Islands are not party to any double taxation treaties.

No stamp duty will be payable in the Cayman Islands in respect of A-S China Shares on the Distribution.

(b) Hong Kong

The comments below are of a general nature based on the Company's understanding of current law and Inland Revenue Department practice in Hong Kong. The comments are non-exhaustive and do not constitute legal or tax advice. Shareholders who are in any doubt as to their personal tax position should consult their own professional advisers.

The Directors have been advised that Shareholders receiving A-S China Shares under the Distribution shall not be subject to Hong Kong tax although Shareholders carrying on a trade, profession or business in Hong Kong will be charged to Hong Kong profits tax on any gain realised on the disposal by them of their A-S China Shares if the gain constitutes assessable profits arising in or derived from Hong Kong from that trade, profession or business.

(c) United Kingdom

The following paragraph is intended as a general guide to the expected United Kingdom taxation treatment of Shareholders who are resident or ordinarily resident in the United Kingdom for tax purposes and is based on current law and practice. Shareholders who are in any doubt as to their tax position should consult a personal tax adviser.

A Shareholder who is resident in the United Kingdom for tax purposes will generally be liable to United Kingdom income taxation on any distribution in specie of the A-S China Shares received by the Shareholder. On a subsequent disposal of the A-S China Shares by a Shareholder who is so resident (or ordinarily resident), a chargeable gain or allowable loss may arise for the purposes of United Kingdom taxation of capital gains, depending on the individual circumstances of the Shareholder.

2. Overseas shareholders

Any person outside Hong Kong who may be entitled to receive A-S China Shares pursuant to the Distribution must satisfy himself as to the full observance of the laws of the relevant territory in connection therewith, including obtaining any requisite governmental or other consents and observing any other requisite formalities in such territory. Shareholders should note that any US person who appears to be legally or beneficially interested in the Shares shall not be entitled to hold A-S China Shares.

No offer to subscribe for securities is being made under this document. This document is being sent to Shareholders for information only, is confidential and should not be copied or redistributed by Shareholders. Such Shareholders will, however, be entitled to vote on the ordinary resolution to be proposed at the Extraordinary General Meeting.

NOTICE OF EXTRAORDINARY GENERAL MEETING

HSBC THE HSBC CHINA FUND LIMITED

Notice of Extraordinary General Meeting

Notice is hereby given that an Extraordinary General Meeting of the above-named Company will be held at 11.00 a.m. on 17 June, 2002 at Level 15, Main Board Room, 1 Queen's Road Central, Hong Kong for the purpose of considering and, if thought fit, passing the following ordinary resolution:-

Ordinary Resolution

"THAT the proposed special dividend by way of return of capital of US\$0.2139 per share of US\$0.01 in the capital of the Company (the "HCF Shares") by way of a distribution in specie (the "Distribution") of shares of US\$0.01 each in the capital of A-S China Plumbing Products Limited ("A-S China Shares") on the basis of two A-S China Shares for every five HCF Shares held by members of the Company appearing on the register of members of the Company on 17 June, 2002 and otherwise on the terms and basis described in the circular to shareholders dated 22 May, 2002 (including, without limitation, subject to satisfaction of the conditions to the Distribution set out therein) be and is hereby approved."

BY ORDER OF THE BOARD

Graham Ashford

Secretary

22 May 2002

Registered Office:

P.O. Box 309

George Town

Grand Cayman

Cayman Islands

British West Indies

Note:

A member of the Company entitled to attend and vote at the above mentioned meeting may appoint a proxy or proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company. Forms appointing proxies must be lodged with K Corporate Services Limited (Attn: Graham Ashford) at 8th Floor, Prince's Building, Central, Hong Kong not less than 48 hours before the time appointed for the meeting. The completion and return of a form of proxy shall not preclude a holder entitled to attend and vote in person at the meeting from doing so if he or she so wishes.