



The HSBC China Fund Limited

Preliminary announcement of unaudited interim results for the six months ended
30 June 2003

The Directors of The HSBC China Fund Limited announce the following unaudited interim results of the Company for the six months ended 30 June 2003:-

	Six months ended 30 June	
	2003 (unaudited) US\$	2002 (unaudited) US\$
GROSS REVENUE		
Interest income	16,593	22,293
Realised losses from sale of listed securities	—	(5,130)
	<u>16,593</u>	<u>17,163</u>
EXPENSES		
Investment manager's fee	(65,932)	(66,216)
Other operating expenses, net	(160,296)	(114,401)
	<u>(226,228)</u>	<u>(180,617)</u>
LOSS BEFORE TAX	(209,635)	(163,454)
TAX	—	87,260
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	(209,635)	(76,194)
LOSS PER SHARE	(0.0086)	(0.0031)
SPECIAL INTERIM DIVIDEND PER SHARE	0.1429	—
OTHER TRANSFER TO RESERVES		
Capital redemption reserve	—	10
NET ASSET VALUE PER SHARE	0.137	0.271

BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") and Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

Pursuant to the Board meeting held on 5 September 2001, at which it was decided to wind up the Company as soon as practical, the Board has been taking steps to achieve this since then. Accordingly, the condensed financial statements for the interim period ended 30 June 2003 and 2002 have been prepared on the net realisation basis, with all assets and liabilities being classified as current assets and liabilities.

IMPACT OF A REVISED SSAP

The revised SSAP 12 "Income taxes" has been adopted for the first time in the preparation of these interim financial statements. SSAP 12 (Revised) prescribes the accounting treatment and disclosure for income taxes. The principal impact of the revision of this SSAP is that the deferred taxation is calculated on temporary differences under the balance sheet liability method, rather than on material timing differences between the accounting and tax treatment of income and expenditure under income statement approach as previously adopted. This SSAP has had no significant impact on these interim financial statements.

The accounting policies and methods of computation adopted in the 2002 annual accounts have been consistently applied to the interim financial statements.

SEGMENT INFORMATION

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

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

	Six months ended 30 June	
	2003	2002
	(unaudited)	(unaudited)
	US\$	US\$
Gross Revenue:		
The People's Republic of China	5,484	14,364
Elsewhere	11,109	2,799
	<u>16,593</u>	<u>17,163</u>
Segment assets:		
The People's Republic of China	5,994,574	6,202,430
Elsewhere	3,059,818	626,453
	<u>9,054,392</u>	<u>6,828,883</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 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 for the period as the Company did not generate any assessable profits in Hong Kong during the period (six months ended 30 June 2002: Nil).

No deferred tax has been provided as there were no significant timing differences at 30 June 2003.

LOSS PER SHARE

The calculation of basic loss per share is based on the net loss for the period from ordinary activities attributable to the shareholders of US\$209,635 (six months period ended 30 June 2002: loss of US\$76,194) and on the weighted average of 24,374,813 (six months ended 30 June 2002: 24,375,680) ordinary shares in issue during the period.

Diluted loss per share has not been presented as no diluting events existed during either period.

NET ASSET VALUE PER SHARE

The calculation of the net asset value per share is based on net assets of US\$3,337,744 (30 June 2002: US\$6,615,019) and 24,374,813 (30 June 2002: 24,374,813) ordinary shares in issue at 30 June 2003.

DIVIDENDS

On 17 June 2002 and 4 November 2002, the Company's shareholders approved a special dividend comprising the distribution in specie of the Company's investment in A-S China Plumbing Products Limited ("ASPPL") on a basis of two ASPPL shares for every five Company's shares to the Company's shareholders. This distribution in specie was contingent upon the approval of the Growth Enterprise Market ("GEM") listing committee of the Stock Exchange for the listing of the shares of ASPPL on GEM, and the completion of a reorganisation of the capital of ASPPL.

On 19 June 2003, the directors announced that the conditions of the proposed distribution in specie of shares in ASPPL had been satisfied in full. Accordingly, the distribution in specie of the Company's investment in ASPPL was made based on its then carrying value, which was the estimated fair value determined by the directors having regard to information known to them and to conditions existing at that date. Subsequent to the interim reporting date of 30 June 2003, ASPPL was listed by way of introduction on the GEM on 11 July 2003.

	Six months ended 30 June	
	2003	2002
	(unaudited)	(unaudited)
	US\$	US\$
Special interim - US\$0.1429 per ordinary share (six months ended 30 June 2002 : Nil)	<u>3,482,073</u>	<u>–</u>

Subsequent to the interim reporting date, on 3 September 2003, the directors have declared a second special interim dividend of US\$0.18 per ordinary share payable on 6 October 2003 to shareholders whose names appear on the Company's Register of Members on 25 September 2003. This interim dividend has not been recognised as a liability at 30 June 2003.

CLOSURE OF TRANSFER BOOKS AND REGISTERS OF MEMBERS

The Transfer Books and Register of Members will be closed from 23 September 2003 to 25 September 2003, 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 interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's registrar, Computershare Hong Kong Investor Services Limited, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:00p.m. on 22 September 2003.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company did not purchase, redeem or sell any of its own listed securities during the period.

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

The Company 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 throughout the accounting period for the six months ended 30 June 2003, 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 89(C) of the Company's Articles of Association.

AUDIT COMMITTEE

The Company established an audit committee on 4 September 1998 in accordance with paragraph 14 of the Code of Best Practice. The Audit Committee has reviewed with management the Company's financial reporting process and discussed auditing and internal control matters, including a review of these interim financial statements which have not been audited.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED

The Stock Exchange website will contain all the information required by paragraphs 46(1) to 46(6) inclusive of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange within 14 days.

CHAIRMAN'S STATEMENT

I am pleased to present the preliminary announcement of The HSBC China Fund Limited ("HCF" or the "Company") for the six months period ended 30 June 2003.

As at 30 June 2003, the Company held two active investments with a net carrying value of US\$5.91 million.

Subsequent to the listing of A-S China Plumbing Products Limited ("ASPPL") and the distribution in specie of the Company's investment in ASPPL as described in the Review of the Unlisted Portion Investments section (the "Review Section"), the Company substantially realised its investment in ASPPL in July 2003.

The carrying value of the Company's investment in New World Sun City Limited ("NWSC") as at 30 June 2003 was US\$2.43 million. Following further payments from NWSC, HCF received US\$3.91 million and the Company realised the balance of its investment in NWSC in August 2003.

On 3 September 2003, the Company declared a second special interim dividend for 2003 of approximately US\$4.39 million representing US\$0.18 per share. This is higher than the Company's Net Asset Value ("NAV") of US\$0.137 per share as at 30 June 2003 as a result of the NWSC payments described above.

In light of the realisation of its investments in ASPPL and NWSC, the Company no longer holds any investments. The Board will therefore take steps to initiate the winding up of the Company.

As at 30 June 2003, the NAV per share of the Company was US\$0.137 (equivalent to HK\$ 1.07) representing a decrease of 52.4% compared to the NAV per share as at 31 December 2002 of US\$0.288 (equivalent to HK\$2.25). The decrease in NAV was primarily

due to the distribution in specie of the Company's investment in ASPPL as described above, which represented the Company's first special interim dividend of 2003.

The Company's share price increased by 3.6% from HK\$1.69 at 31 December 2002 to HK\$1.75 at 30 June 2003.

By Order of the Board

Donald P H Liao

Chairman

3 September 2003, Hong Kong

REVIEW OF THE UNLISTED PORTION INVESTMENTS

As at 30 June 2003, the Unlisted Portion comprised two active investments as 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 several joint ventures in China. ASPPL is a subsidiary of American Standard Inc. ("ASI"). ASI is based in the US and is listed on the New York Stock Exchange. ASI manufactures products for various industries, including: air conditioning; bathroom and kitchen fixtures and fittings; automotive braking; and, vehicle control systems. ASI's brands include Trane, American Standard, Ideal Standard, Standard, Porcher, Jado, Armitage Shanks, Dolomite and Wabco. ASI has granted to ASPPL the exclusive rights to license trademarks owned by ASI for plumbing products in China.

Subsequent to the interim reporting date, on 11 July 2003, ASPPL obtained a listing by way of introduction on the Growth Enterprise Market ("GEM") in Hong Kong. The conditions of the proposed distribution in specie of shares in ASPPL (the "Distribution") to the Company's shareholders were satisfied in full shortly before the listing of ASPPL. Accordingly, the Distribution proceeded just prior to the listing of ASPPL in accordance to the announcement (the "Announcement") made by the Company on 19 June 2003. Under the Distribution, eligible shareholders were allocated two ASPPL shares for every five HCF shares held as described in the Announcement.

As a result of the Distribution, the Company substantially realised its investment in ASPPL in July 2003. The Company had fully realised its investment in ASPPL as at 3 September 2003.

NEW WORLD SUN CITY LIMITED ("NWSC")

NWSC was incorporated in Hong Kong 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.

In October 2002, NWSC undertook to realise and distribute to its shareholders, their pro-rata share of its liquid assets, and the Company agreed to sell its residual investment in NWSC.

The Company realised its investment in NWSC in full during August 2003, having received total proceeds of US\$12.8 million compared with the original cost of US\$7.3 million.

INVESTMENT PORTFOLIO

UNLISTED PORTION

NON-TRADING SECURITIES - EQUITY

SECURITIES

		Cost	Unrealised gain	Provision for diminution	Fair value	% of
Unlisted securities	Shareholding	US\$	US\$	US\$	US\$	Net Assets
A-S China Plumbing Products Limited	6.4%	6,964,200	–	(3,482,100)	3,482,100	104.3%
New World Sun City Limited - ordinary shares	167	84,238	2,345,762	–	2,430,000	72.8%
Total Non-Trading Equity Securities		7,048,438	2,345,762	(3,482,100)	5,912,100	177.1%
SHORT TERM INVESTMENTS - Fixed deposit					2,900,000	86.9%
Total Investments					8,812,100	264.0%
OTHER NET LIABILITIES					(5,474,356)	(164.0%)
Total Net Assets					3,337,744	100.0%

Please also refer to the published version of this announcement on 4 September 2003 in the Standard.