INVESTMENT MANAGER'S REPORT

Performance

The China Fund's net asset value per share fell 12% in the 6 months to 30 September 2001. This compares with a decline of 17% for the CLSA China World Index in the same period.

The Company continued to focus on high quality companies, exercising strict discipline in buying and selling stocks. These have contributed to the Company's relative outperformance in the highly volatile market environment. At the end of the period, the Company was 47% invested in Red Chips, 31% in 'H' shares, 7% in 'B' shares and the remainder in Hong Kong companies with substantial business in China. Cash made up 5% of the portfolio.

The Company received subscriptions for 3,198 shares and repurchases of 101,871 shares during this period.

Economic Review

China's GDP growth in the 2nd quarter of this year slowed to 7.7% from 8.1% in the 1st quarter. Chinese exports succumbed to the global slowdown, weakening to only 0.9% growth in August. Including indirect exports through Hong Kong, exports to the US accounted for over 40% of total Chinese exports. Weak consumption demand in the US translated to poorer demand for electronics and light industrial goods from China.

Domestic demand has fortunately remained resilient. The global slowdown has had little impact, with retail sales growing by 9.6% in August, compared to a growth of 10.2% in January to July. Fixed asset investment continued to expand, accelerating from 18.4% from January to July to 18.9% from January to August, mainly driven by real estate investment (up 31%) and foreign direct investment (up 20%).

Stock Market Review

Chinese shares started the financial year with a powerful rally that lasted 3 months. The government had allowed locals to invest in the 'B' share market which was previously opened only to foreign investors. Believing that Hong Kong would be the next market to follow suit, liquidity flooded into the 'H' shares and Red Chips. However, these shares retreated quickly upon realisation that the Chinese government had no such intention.

In an environment of earnings uncertainty, the oil related stocks were the best performers due to their earnings stability.

Outlook

The world's economic outlook has been further clouded by the impact from the terrorist attack on the World Trade Centre in New York. The Company believes that economic slowdown in the US is likely to be more protracted than originally envisaged. Consequently, China's GDP forecast for next year had been brought down to 7% from 7.5%. This takes into consideration weak exports growth but reasonably healthy domestic consumption and sustained strength in fixed asset investments. The Company is cognisant of the 25% decline in the 'A' share markets from the peak in June this year. Its potential impact on the consumption market will be closely monitored, but there is no substantive reason to be concerned at this stage.

Given the huge uncertainty economically and politically in the rest of the world, China stacks up relatively well with its large consumer market and political stability. Although many Chinese companies will not be able to escape from the weakness in the global economy, investors' belief that China is relatively more insulated should buttress the performance of the stock market.

Although the Company had initially anticipated a broadening of the investible universe due to new issues in the equity market, this has not occurred due to the poor global equity market. These issues are likely to be brought to the market in a more stable environment.

In times of uncertainty, the Company continues to focus on stocks with earnings clarity, while avoiding stocks that are heavily geared to the global economic growth.

Deutsche Asset Management (Asia) Limited

28th November, 2001