

THE CHINA FUND

REPORT OF THE DIRECTORS

The Directors are pleased to present their report and the audited financial statements of the Company for the year ended 31 March 2003.

PRINCIPAL ACTIVITY

The principal activity of the Company has not changed during the year and consisted of investment in equity securities in the People's Republic of China (the "PRC") and in companies with significant assets in, or significant earnings derived from the PRC. Investments may be made, either directly or indirectly, in securities of such companies which are listed, or are to be listed, either directly or indirectly, on any recognized stock exchange.

RESULTS AND DIVIDENDS

The Company's results for the year ended 31 March 2003 and its state of affairs at that date are set out in the financial statements on pages 13 to 34.

The Directors recommend the payment of a dividend in the amount of US\$0.18 per ordinary share, totaling US\$206,955 (2002: US\$406,532).

During the year, the Board of Directors declared and paid a dividend in the amount of US\$0.33 per ordinary share, totaling US\$404,251 in respect of the year ended 31 March 2002.

SUMMARY OF FINANCIAL INFORMATION

A summary of the Company's results has not been shown since, in the opinion of the Directors, it would be of limited benefit to the shareholders, whereas disclosure of Net Asset Value per share is considered to be a better reflection of the Company's performance.

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A summary of the published financial information of the Company for the last five years is set out below:

As at 31 March

	2003	2002	2001	2000	1999
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
Listed investments	20,095,646	23,247,618	23,148,864	21,827,259	9,082,876
Other assets	1,731,726	1,063,555	1,479,671	1,719,641	489,374
Total liabilities	<u>(216,663)</u>	<u>(45,219)</u>	<u>(664,139)</u>	<u>(770,281)</u>	<u>(178,269)</u>
Net assets	<u><u>21,610,709</u></u>	<u><u>24,265,954</u></u>	<u><u>23,964,396</u></u>	<u><u>22,776,619</u></u>	<u><u>9,393,981</u></u>
Net Asset Value per share	<u><u>18.80</u></u>	<u><u>19.70</u></u>	<u><u>18.83</u></u>	<u><u>19.11</u></u>	<u><u>10.81</u></u>

SHARE CAPITAL

Details of movements in the issued share capital of the Company during the year are set out in note 6 to the financial statements.

There are no provisions for pre-emptive rights under the Company's by-laws or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

RESERVES

Details of movements in the reserves of the Company during the year are set out in the statement of changes in equity.

DISTRIBUTABLE RESERVES

At 31 March 2003, the Company's reserves available for cash distribution and/or distribution in specie amounted to US\$21,599,211 (2002: US\$24,253,635). Under the laws of the Cayman Islands, a company may make distributions to its members out of the share premium account under certain conditions.

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However, the Explanatory Memorandum of the Company dated 14th July 1999 states that the income of the Company will first be used to meet expenses, and dividends will only be paid to the extent that they are covered by the net income received. The balance of the Revenue Reserve at 31 March 2003 amounted to US\$1,410,601 (2002: US\$1,814,852). Furthermore, the Explanatory Memorandum states that the Board does not intend to distribute capital or capital gains.

DIRECTORS

The Directors of the Company during the year were:

Glyn Owen* (*Chairman*)
Diane Seymour-Williams
Jimmy Pun Kwok Wing*
Michael Shelley*
Choy Peng Wah

* *Independent Non-Executive Directors*

In accordance with the Company's articles of association, Mrs. Diane Seymour-Williams and Mr. Jimmy Pun Kwok Wing will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' BIOGRAPHICAL DETAILS

Glyn Owen

Mr. Owen is the former Chairman of the Investment Manager. He holds an Honours degree in Economics and joined the Investment Manager's United Kingdom investment research team in 1973. He was transferred to international research in 1976 and in 1980 he became an international portfolio manager, focusing on the provision of global equity management services to international clients. Mr. Owen played a key role in the foundation of Morgan Grenfell International Funds Management Limited in 1986. Mr. Owen is 52 years old and is a British national.

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Diane Seymour-Williams

Mrs. Seymour-Williams is a Director of the Investment Manager. She holds a Master of Arts degree in Economics from Cambridge University and joined the Investment Manager's United Kingdom research department in 1981. A year later, she was transferred to the international team to specialize in the South East Asian stock markets and was seconded to the Singapore office in 1983. She then joined the portfolio management team to manage specialist regional funds and global portfolios on behalf of clients in the Asia Pacific region. Mrs. Seymour-Williams was responsible for the Investment Manager's Asia Pacific portfolio management team in London prior to relocating to Singapore, where she became the Managing Director of the Investment Manager. She is now based in London and is a Director of Deutsche Asset Management Limited. Mrs. Seymour-Williams is 44 years old and is a British national.

Jimmy Pun Kwok Wing

Mr. Pun received his secondary and tertiary education in Hong Kong and in the United Kingdom, where he obtained his Bachelor's degree in Computing and Master of Technology degree in Production Management from Brunel University. He was admitted as an accountant in 1979 to the Chartered Institute of Management Accountants in the United Kingdom. Mr. Pun is a Fellow Member of the Institute, and is a member of the Governing Council and a Past-President of the Hong Kong Division of the Institute. He is also a Fellow Member of the Hong Kong Society of Accountants. Mr. Pun is a Director and the Head of Pension Funds, Global Fund Services of The Bank of Bermuda Limited, Hong Kong Branch. Previously, he held senior financial positions responsible for the Asia Pacific region with a number of multi-national organizations in Hong Kong and the United Kingdom. Mr. Pun is 50 years old and is a British national.

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Michael Shelley

Mr. Shelley is the former General Manager for Retirement Benefits of the Swire Group in Hong Kong. Having graduated from the Sorbonne, he started his career with Barclays Bank, holding posts both in England and France. In 1970, having joined American Express, he was assigned to Hong Kong, Taiwan and the Philippines. Before joining the Swire Group in 1990, he spent several years with Citicorp involved in their Insurance Broking and Fund Management activities. Being a fluent Mandarin speaker, he has a deep interest in Asia and China in particular. He is 58 years old and thus has spent more than half of his life in South East Asia.

Choy Peng Wah

Choy Peng Wah was appointed Managing Director of Deutsche Asset Management (Asia) Limited on 1 October 1998. Prior to that, he was Director of Business Development for North Asia and the Managing Director of Morgan Grenfell (Hong Kong) Limited. Mr. Choy joined Morgan Grenfell from Citibank Global Asset Management in Hong Kong where he had held the position of Managing Director since 1997. From 1994, he was Marketing Director for Asia Pacific with BNP/N&B Global Asset Management until 1996. Mr. Choy was with Citibank N.A. from 1983 to 1994 working in various areas of operations in Singapore and New York. Mr. Choy is 46 years old.

DIRECTORS' INTERESTS

As at 31 March 2003, none of the Company's Directors or their associates had a direct or indirect interest in the share capital of the Company.

At no time during the year was the Company a party to any arrangement to enable the Company's Directors or their associates to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

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Diane Seymour-Williams and Choy Peng Wah are Directors of the Investment Manager, Deutsche Asset Management (Asia) Limited. Apart from the above, there were no contracts of significance in relation to the Company's business to which the Company was a party and in which a Director of the Company had a material interest, whether directly or indirectly, at the end of the year or at any time during the year.

No Director has a service contract with the Company.

SUBSTANTIAL SHAREHOLDERS

At 31 March 2003, the register of shareholders maintained under Section 16(1) of the Securities (Disclosure of Interests) Ordinance indicated that the following shareholder had an interest of 10% or more in the issued share capital of the Company:

	Number of shares	% of the Company's issued capital
Citivic Nominees Limited*	1,120,445	97.45%

* Citivic Nominees Limited is the depository for Euroclear.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

The Company has an open-ended structure and has the power to repurchase its listed ordinary shares from shareholders on a daily basis.

The Company repurchased 101,149 (2002: 129,671) and issued 18,987 (2002: 89,081) of its listed ordinary shares during the year, priced at the Net Asset Value of the shares on the respective repurchase and issue dates, adjusted for a dealing charge of 0.5%. The repurchase prices ranged from US\$16.67 to US\$20.74 per share, and the issue prices ranged from US\$18.56 to US\$20.10 per share.

The Company did not buy back any of its listed ordinary shares on The Stock Exchange of Hong Kong Limited during the year.

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DISTRIBUTOR STATUS

The Company was certified as a distributing fund for the purposes of Chapter V of Part XVII of the United Kingdom Income and Corporation Taxes Act 1988 in respect of the period from 20 January 1992 (date of incorporation) to 31 March 2002. It is intended that an application will be submitted to the United Kingdom Inland Revenue for certification in respect of the year ended 31 March 2003.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice (the “Code”) as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited throughout the year ended 31 March 2003, except that the independent Non-Executive Directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company’s articles of association. The Company has established an audit committee in accordance with paragraph 14 of the Code.

AUDITORS

The financial statements of the Company have been audited by Ernst & Young, who retire, and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Fortis Fund Services (Cayman) Limited

Company Secretary

Grand Cayman

16 July 2003