

THE CHINA FUND

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

1. GENERAL

The Company is an investment fund, whose principal investment objective is the long term capital appreciation of its assets. The Company invests in equity and equity linked securities in China, and in companies with significant assets in, or significant earnings derived from China, including Chinese companies the securities of which either are or will be listed, either directly or indirectly, on any recognized stock exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), which comprise standards and interpretations approved by the International Accounting Standards Board (“IASB”), and International Accounting Standards (“IAS”) and Standing Interpretations Committee interpretations approved by International Accounting Standards Committee (“IASC”) that remain in effect.

(b) Accounting convention

These financial statements have been prepared under the historical cost convention, modified to include the revaluation of investments.

(c) Listed investments

The Company classifies its investments as “available-for-sale”. Investments classified as available-for-sale are not held principally for the purpose of generating a profit from short term fluctuations in price, but may be purchased or sold in response to changes in available cash resources arising from shares issues and repurchases. The investment manager also buys and sells investments to balance the risks in the Company’s portfolio in response to changes in market conditions and to meet designated investment restrictions.

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NOTES TO THE FINANCIAL STATEMENTS (unaudited) (Cont'd)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(c) **Listed investments** (Cont'd)

All investments are initially recognized at cost, being the fair value of the consideration given and including acquisition charges associated with the investments. Investments are subsequently re-measured at fair value. Fair values are based on quoted market prices on the principal stock exchange on which the investments are traded, subject to permitted adjustments, under IAS 39, which are made by the Directors. Adjustments may be made where overriding circumstances exist whereby another valuation basis gives a more accurate and reliable determination of fair value than the quoted market prices. Such adjustments may be made where there is infrequent activity in the market, the market is not well established (such as “over the counter” markets) or small volumes are traded relative to the number of units to be valued.

Unrealized gains and losses arising from changes in the fair value of investments are recognized in the revenue account as they arise.

Realized gains and losses on investments are calculated on the average cost basis and are dealt with in the revenue account.

For investments purchased in currencies other than United States dollars, for disclosure purposes, the original costs are translated into United States dollars at the rates ruling at the balance sheet date.

All purchases and sales of investments that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recognized on the trade date, which is the date on which the Company commits to purchase or sell the asset.

For the purposes of the cash flow statement, cash flows arising from the purchase and sale of the investments are classified as operating activities as they relate to the operations of the Company.

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NOTES TO THE FINANCIAL STATEMENTS (unaudited) (Cont'd)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(d) Dividends receivable (Cont'd)

Dividends are recorded as being receivable on their ex-dividend dates.

Dividends are generally paid one week after the ex-dividend date for equities quoted on the Shenzhen Stock Exchange and two to three days after the ex-dividend date for those quoted on the Shanghai Securities Exchange. There is no such general fixed period between the ex-dividend date and payment date for equities quoted on The Stock Exchange of Hong Kong Limited ("HKSE"). The dividends receivable included in the Company's balance sheet as at 30 September 2003 will be settled within two months and those as at 31 March 2003 were settled within two months of the balance sheet date.

(e) Amounts due from brokers

Amounts due from brokers are carried at cost which is the fair value of the consideration to be received in the future for investments sold, net of charges to be paid for services received, whether or not billed to the Company.

Investments are settled according to the normal settlements periods of the relevant stock exchanges, which are usually within one week after the trade date. The amounts due from brokers included in the Company's balance sheet as at 31 March 2003 were settled in accordance with these trade terms.

(f) Amounts due to brokers

Amounts due to brokers are carried at cost which is the fair value of the consideration to be paid in the future for investments purchased and services received, whether or not they are billed to the Company.

Investments are settled within the normal settlements periods of the relevant stock exchanges, which are usually within one week after the trade date. The amounts due to brokers included in the Company's balance sheet as at 31 March 2003 were settled in accordance with these trade terms.

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NOTES TO THE FINANCIAL STATEMENTS (unaudited) (Cont'd)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(g) Revenue recognition

Bank interest income is recognized in the revenue account on a time proportion basis, taking into account the principal outstanding and the effective rate of interest applicable.

Dividend income is recognized in the revenue account when the Company's right to receive payment is established, which is the date on which equities are quoted as ex-dividend.

The Explanatory Memorandum states that any net loss in a particular year is written off against the capital reserve in that year and is not carried forward.

(h) Foreign currency transactions

The Company maintains its books and records in United States dollars. Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. All assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the revenue account.

(i) Equalization

Equalization is the accrued income or loss included in the issue/repurchase price of shares and is dealt with in the revenue account following the issue/repurchase of shares.

(j) Cash and cash equivalents

Cash on hand and at banks and short term deposits which are held to maturity are carried at cost.

Cash and cash equivalents are defined as cash on hand, demand deposits and short term, highly liquid investments which are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value.

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NOTES TO THE FINANCIAL STATEMENTS (unaudited) (Cont'd)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(j) Cash and cash equivalents (Cont'd)

For the purpose of the cash flow statement, cash and cash equivalents consist of cash and deposits at banks with an original maturity of three months or less.

(k) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

3. 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 has been made for tax in the People's Republic of China as dividends and gains realized from the sale of "B" shares are not taxable.

No provision for Hong Kong profits tax has been made as the Company is exempted from tax under Section 26A (1A) of the Inland Revenue Ordinance.

4. FEES

Investment management fee

Deutsche Asset Management (Asia) Limited (the "Investment Manager") is entitled to receive a fee calculated on the basis of the average daily Net Asset Value (before deduction of the fees of the Investment Manager, the Custodian and the Administrator) of the Company at the annual rate of 0.75%, subject to a minimum annual fee of US\$100,000.

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NOTES TO THE FINANCIAL STATEMENTS (unaudited) (Cont'd)

4. FEES (Cont'd)

As at 30 September 2003, US\$16,710 was payable to the Investment Manager for the investment management fee.

Administration fee

Fortis Fund Services (Cayman) Limited (the “Administrator”) is entitled to receive a fee calculated on the Net Asset Value of the Company, subject to a minimum monthly fee of US\$4,000, at the following annual rates:

- 0.25% from US\$nil to US\$50 million
- 0.20% from US\$50 million to US\$75 million
- 0.15% from US\$75 million to US\$100 million
- 0.10% above US\$100 million

Fortis Fund Services (Asia) Limited, the Sub-Administrator, is entitled to a fee payable out of the Administration Fee.

As at 30 September 2003, US\$6,039 was payable to the Administrator for the administration fee.

Custodian fee

Fortis Bank (Nederland) N.V. does not receive any fees in its capacity as a custodian.

Citibank N.A., Hong Kong, a sub-custodian, is entitled to receive fees based on the month-end market value of the Company’s investment holdings, at the annual rate of 0.06% for investments listed on the Shanghai Securities Exchange and the Shenzhen Stock Exchange, and 0.03% for the investments listed on the HKSE.

In addition, the sub-custodian is entitled to receive transaction fees amounting to US\$60 for each transaction involving shares listed on the Shanghai Securities Exchange and the Shenzhen Stock Exchange, US\$40 for shares listed on the HKSE, and US\$20 for shares listed on the United States Stock Exchanges.

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NOTES TO THE FINANCIAL STATEMENTS (unaudited) (Cont'd)

5. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net income for the period of US\$9,065,048 (2002: net loss of US\$1,923,052) and the weighted average of 1,128,155 (2002: 1,224,838) ordinary shares in issue during the period.

Diluted earnings per share has not been presented as there were no diluting events.

6. LISTED INVESTMENTS

	30/9/2003 US\$	31/3/2003 US\$
Listed investments, at cost	23,109,203	20,277,121
Unrealized gains/(losses)	4,782,942	(181,475)
	<u>27,892,145</u>	<u>20,095,646</u>
Market value at balance sheet date	<u>27,892,145</u>	<u>20,095,646</u>

A detailed portfolio listing is set out on page 10.

7. FINANCIAL ASSETS AND LIABILITIES AND RISK MANAGEMENT POLICY OF THE COMPANY

In pursuing its investment objectives, as set out in the Investment Manager's report, the Company holds a number of financial instruments:

1. Equities and equity related securities which are held in accordance with the Company's objectives; and
2. Cash, liquid resources and short term debtors and creditors that arise directly from the Company's operations.

Details of the investment strategy of the Investment Manager during the period are contained within their report to the Company.

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NOTES TO THE FINANCIAL STATEMENTS (unaudited) (Cont'd)

7. FINANCIAL ASSETS AND LIABILITIES AND RISK MANAGEMENT POLICY OF THE COMPANY (Cont'd)

The investments held by the Company are set out in the Investment Portfolio. The Company has no financial liabilities other than short-term creditors. The main risks relating to investments are set out below.

(a) Market price risk

Market price risk arises mainly from uncertainty about future prices of the financial instruments held. It represents the potential loss the Company might suffer through holding market positions in the face of price movements.

The Company is exposed to market price risk on all of its investments.

The Company employs efficient portfolio management techniques to provide a degree of protection against market price falls. The Investment Manager's Investment Policy Committee meets on a formal basis monthly and frequently intra-monthly to discuss market developments. It also meets in response to unexpected external developments. The role of the committee is to analyze markets, to form opinions on the relative attractions of each asset class and to set asset mix targets.

The fund management team is responsible for monitoring the portfolio in accordance with the overall asset allocation parameters. It also seeks to ensure that individual stocks meet acceptable risk/reward profiles.

Details of the Company's listed shareholdings, at the balance sheet date, and the exchanges which the Company has market price risk exposure are set out on page 10.

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial assets. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

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NOTES TO THE FINANCIAL STATEMENTS (unaudited) (Cont'd)

7. FINANCIAL ASSETS AND LIABILITIES AND RISK MANAGEMENT POLICY OF THE COMPANY (Cont'd)

(b) Liquidity risk (Cont'd)

The Company's exposure to liquidity risk is considered to be relatively minimal as all of the investments of the Company are publicly listed. Details of the Company's publicly listed holdings, at the balance sheet date, and the exchanges on which the Company has liquidity risk exposure are set out on page 10.

The Investment Manager will normally keep an allocation of cash to meet pending liabilities that may arise from time to time. In addition, a short term revolving credit facility has been provided by Fortis Bank, Hong Kong Branch to allow the Company to meet any immediate liquidity requirement.

(c) Credit risk

Credit risk is the risk that one party to a financial asset will fail to discharge its obligation and cause the other party to incur a financial loss. Substantially all of the Company's cash and cash equivalents are deposited with a single reputable financial institution located in Hong Kong and as a result, it is exposed to a concentration of credit risk.

The Investment Manager buys and sells investments only through brokers which have been approved by the Risk Committee of Deutsche Asset Management (Asia) Limited. These approved brokers are monitored to determine that they remain acceptable counterparties. In addition, the maximum exposure to any one broker is limited and these limits are reviewed on an ongoing basis.

(d) Foreign currency risk

Foreign currency risk is the risk that the value of financial assets or liabilities will fluctuate due to changes in foreign exchange rates. The Company is exposed to foreign currency risk from investments which are denominated in currencies other than United States dollars. The Company's listed investments quoted on the exchanges set out on page 10 are denominated in United States dollars and Hong Kong dollars.

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NOTES TO THE FINANCIAL STATEMENTS (unaudited) (Cont'd)

7. FINANCIAL ASSETS AND LIABILITIES AND RISK MANAGEMENT POLICY OF THE COMPANY (Cont'd)

(d) Foreign currency risk (Cont'd)

Financial assets and liabilities, other than listed investments described above, are subject to foreign currency risk and credit risk.

(e) Interest rate risk

Interest rate risk is the risk that the values of interest bearing financial instruments will fluctuate in value as a result of changes in interest rates.

Other than the interest-bearing bank balances held as at the balance sheet date which had an effective interest rate of 0.5000% per annum, the Fund mainly invests in equity securities and as such, its exposure to interest rate risk is considered to be relatively minimal.

8. SHARE CAPITAL

	30/9/2003 US\$	31/3/2003 US\$
Authorized:		
90,000,000 ordinary shares of US\$0.01 each	<u>900,000</u>	<u>900,000</u>
Issued and fully paid:		
1,099,114 (31/3/03: 1,149,752) ordinary shares of US\$0.01 each	<u>10,991</u>	<u>11,498</u>

The Company repurchased 50,638 of its listed ordinary shares during the period, priced at the Net Asset Value of the shares on the respective repurchase dates, adjusted for a dealing charge of 0.50%. The repurchase prices ranged from US\$18.21 to US\$26.62 per share. The Company paid US\$1,134,847 in aggregate for the shares repurchased during the period.

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

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NOTES TO THE FINANCIAL STATEMENTS (unaudited) (Cont'd)

9. NET ASSET VALUE PER SHARE

The calculation of net asset value per share is based on net assets as at 30 September 2003 of US\$29,244,634 (31/3/03: US\$21,610,709) and 1,099,114 (31/3/03: 1,149,752) ordinary shares in issue at that date.

10. DIVIDEND

The directors do not recommend the payment of an interim dividend for the period ended 30 September 2003 (2002: Nil).

A dividend of US\$0.18 per ordinary share totalling US\$201,314 was paid on 29 August 2003 to all shareholders appearing on the share register of the Company on 18 August 2003. A supplementary dividend of US\$0.10 per ordinary share totalling US\$109,911 was paid on 29 September 2003 to all shareholders whose names appear on the share register of the Company as at the close of business on 25 September 2003.

11. DIRECTORS' INTERESTS

As at 30 September 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 period 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.

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 period or at any time during the period.

No director has a service contract with the Company.

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12. TRANSACTIONS WITH CONNECTED PERSONS

In addition to those transactions with Connected Persons disclosed in notes 4 and 11, the following is a summary of transactions entered into during the period between the Company and the Investment Manager and its Connected Persons. Connected Persons are those as defined in the Listing Rules of The Stock Exchange of Hong Kong Limited and in the Code on Unit Trusts and Mutual Funds established by the Securities and Futures Commission of Hong Kong. All such transactions were entered into in the ordinary course of business and on normal commercial terms.

Execution of investment transactions by a Connected Person of the Investment Manager:

	Total purchases and sales of securities US\$	% of the Company's total transactions during the period
Deutsche Securities (Asia) Limited		
1/4/03-30/9/03	22,410,878	48.91
1/4/02-30/9/02	2,013,401	13.18
	Total commission paid on the above transactions US\$	Average commission rate %
Deutsche Securities (Asia) Limited		
1/4/03-30/9/03	47,147	0.21
1/4/02-30/9/02	5,034	0.25

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13. SOFT COMMISSION ARRANGEMENTS

The Investment Manager, Deutsche Asset Management (Asia) Limited, is responsible for the selection of brokers to be used by the Company. In some instances, the Investment Manager has entered into soft commission arrangements with the brokers. Under these soft commission arrangements, the Investment Manager obtains services or benefits from third parties which are paid for by the brokers out of the commission they receive. Such services or benefits are related primarily to performance measurement, valuation and research services which are of demonstrable benefit to the Company. The Investment Manager is satisfied that the investment transactions generating soft commissions comply with requirements for best execution both as to price and settlement.

14. RELATED PARTY TRANSACTIONS

The Company's transactions with related parties are detailed in notes 4, 11,12 and 13 to the financial statements.

15. SUBSTANTIAL SHAREHOLDERS

At 30th September 2003, the register of shareholders maintained under Section 16(1) of the Securities (Disclosure of Interests) Ordinance indicated that the following shareholders had an interest of 10% or more in the share capital of the Company:

	Number of shares	% of share capital
Citivic Nominees Limited*	1,068,603	97.22%

(*) *Citivic Nominees Limited is the depository for Euroclear.*

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NOTES TO THE FINANCIAL STATEMENTS (unaudited) (Cont'd)

16. CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited throughout the period ended 30 September 2003, except that the independent non-executive directors of the Company are not appointed for specific terms. Independent non-executive directors 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 of Best Practice.