

# **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 2004.

### **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 2004 and its state of affairs at that date are set out in the financial statements on pages 13 to 38.

The Directors recommend the payment of a dividend in the amount of US\$0.38 per ordinary share, totaling US\$375,613 (2003: US\$206,955).

During the year, the Board of Directors declared and paid dividends in the amounts of US\$0.18 and US\$0.10 per ordinary share, to all ordinary shareholders appearing on the register of members of the Company as at 18 August 2003 and 25 September 2003, respectively, totaling US\$311,225 in respect of the year ended 31 March 2003.

### **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.

## THE CHINA FUND

### REPORT OF THE DIRECTORS (cont'd.)

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

As at 31 March

	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
Listed investments	38,134,227	20,095,646	23,247,618	23,148,864	21,827,259
Other assets	4,614,886	1,731,726	1,063,555	1,479,671	1,719,641
Total liabilities	<u>(2,778,932)</u>	<u>(216,663)</u>	<u>(45,219)</u>	<u>(664,139)</u>	<u>(770,281)</u>
Net assets	<u><u>39,970,181</u></u>	<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>
Net Asset Value per share	<u><u>38.12</u></u>	<u><u>18.80</u></u>	<u><u>19.70</u></u>	<u><u>18.83</u></u>	<u><u>19.11</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 2004, the Company's reserves available for cash distribution and/or distribution in specie amounted to US\$39,959,696 (2003: US\$21,599,211). Under the laws of the Cayman Islands, a company may make distributions to its members out of the share premium account under certain conditions.

## THE CHINA FUND

### REPORT OF THE DIRECTORS (cont'd.)

However, the Explanatory Memorandum of the Company dated 14 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 2004 amounted to US\$22,788,929 (2003: US\$1,410,601). 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, Michael Shelley and Choy Peng Wah 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 53 years old and is a British national.

## **THE CHINA FUND**

### **REPORT OF THE DIRECTORS (cont'd.)**

#### **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 Managing Director of Deutsche Asset Management Limited. Mrs. Seymour-Williams is 45 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, 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 51 years old and is a British national.

#### **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

## **THE CHINA FUND**

### **REPORT OF THE DIRECTORS (cont'd.)**

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 59 years old and thus has spent more than half of his life in South East Asia.

#### **Choy Peng Wah**

Choy Peng Wah was appointed as the Managing Director of Deutsche Asset Management (Asia) Limited on 1 October 1998. Prior to that, he was a 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 the 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 47 years old.

### **DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES**

As at 31 March 2004, none of the Company's Directors or their associates had registered an interest or short positions in the share capital of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

### **DIRECTORS' RIGHTS TO ACQUIRE SHARE OR DEBENTURES**

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

## THE CHINA FUND

### REPORT OF THE DIRECTORS (cont'd.)

#### DIRECTORS' INTERESTS IN CONTRACTS

Diane Seymour-Williams and Choy Peng Wah are Directors of the Investment Manager, Deutsche Asset Management (Asia) Limited. Save as disclosed above, no Director had a material interest, either directly or indirectly, in any contact of significance to the Company's business to which the Company was a party during the year.

No Director had any service contract with the Company during the year.

#### SUBSTANTIAL SHAREHOLDERS

At 31 March 2004, the register of shareholders maintained under Section 336 of the SFO indicated that the following shareholder had an interest of 5% or more in the issued share capital of the Company:

	<b>Number of ordinary shares</b>	<b>% of the Company's issued capital</b>
Citivic Nominees Limited*	1,025,623	97.82%

- \* Citivic Nominees Limited is the depository for Euroclear. Through the nominee entity, clients of Deutsche Asset Management (Asia) Limited, the investment manager of the Company, held 59.28% of the Company's issued capital as at 31 March 2004.

None of the Company's shareholders had registered a short position in the share capital of the Company.

#### 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 101,297 (2003: 101,149) and did not issue any (2003: 18,987) 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\$18.21 to US\$38.73 per share.

## **THE CHINA FUND**

### **REPORT OF THE DIRECTORS (cont'd.)**

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

### **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 2003. 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 2004.

### **CODE OF BEST PRACTICE**

In the opinion of the Directors, the Company 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 2004, 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 an audit committee which was established in accordance with paragraph 14 of the Code.

### **AUDITORS**

The financial statements of the Company for the year 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 Prime Fund Solutions (Asia) Limited**  
**(Formerly Fortis Fund Services (Asia) Limited)**

*Assistant Secretary*

Hong Kong  
20 July 2004