

THE CHINA FUND

NOTES TO FINANCIAL STATEMENTS 31 MARCH 2004

1. GENERAL

The China Fund (the “Company”) was incorporated on 20 January 1992 in the Cayman Islands as an exempted company. The Company is a regulated mutual fund under the Cayman Islands Mutual Funds Law. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the “HKSE”).

The principal investment objective of the Company is the long term appreciation of its assets by investment, primarily in equity and equity linked securities in the People’s Republic of China (the “PRC”), and in companies with significant assets in, or significant earnings derived from the PRC, including Chinese companies, the securities of which either are or will be listed, either directly or indirectly, on any recognized stock exchange. In the opinion of the Directors, the Company operates in one business and one geographical segment. The Company has no employees.

The Company is an open-ended structure having the power to repurchase its shares from shareholders on a daily basis at 99.5% of their Net Asset Value and to issue shares daily at Net Asset Value plus a dealing charge of 0.5%.

On 1 December 1994, the Securities and Futures Commission (the “SFC”) in Hong Kong approved the Company as an authorized mutual fund pursuant to Section 15(1) of the then Securities Ordinance. The Company was granted a change of listing status from an investment company to an authorized mutual fund by the HKSE on 14 March 1995. Authorization by the SFC does not imply official approval or recommendation.

THE CHINA FUND

NOTES TO FINANCIAL STATEMENTS (cont'd.)
31 MARCH 2004

2. DURATION

The Company has been established for an unlimited duration. However, pursuant to the articles of association of the Company, in the event that at any time over a consecutive period of 12 weeks the Net Asset Value of the Company falls below an average weekly amount of US\$10 million, the Board of Directors shall be entitled, at its discretion, to convene a meeting for the purpose of considering a resolution to the effect that the Company be wound up. In such event, the Company shall be wound up subject to the passing of an ordinary resolution of the shareholders in a general meeting voting to place the Company in voluntary liquidation.

3. 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 the International Accounting Standards Committee (“IASC”) that remain in effect, and with the Code on Unit Trusts and Mutual Funds published by the Securities and Futures Commission of Hong Kong (the “Code”) and the disclosure requirements of the Hong Kong Companies Ordinance.

(b) Accounting convention

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

THE CHINA FUND

NOTES TO FINANCIAL STATEMENTS (cont'd.) 31 MARCH 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

(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 share 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.

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. In accordance with IAS 39 “Financial Instruments: Recognition and Measurement”, fair value is generally determined by reference to the last bid price at the close of business on the balance sheet date for securities held, subject to the 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. In the opinion of the Directors, the last traded prices on the principal stock exchange on which the investments are traded are the more appropriate measurement basis in determining the fair value of the investments as the investments held by the Company are actively traded on the relevant stock exchanges.

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 applicable rates ruling at the balance sheet date.

THE CHINA FUND

NOTES TO FINANCIAL STATEMENTS (cont'd.) 31 MARCH 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

(c) **Listed investments** (cont'd.)

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 recognised on the trade date, which is the date on which the Company commits to purchase or sell the asset.

For the purpose 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.

(d) **Dividends receivable**

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 HKSE. No dividend was receivable as at 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 settlement 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 2004 were settled in accordance with these trade terms.

THE CHINA FUND

NOTES TO FINANCIAL STATEMENTS (cont'd.) 31 MARCH 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

(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 settlement 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 2004 were settled in accordance with these trade terms.

(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 of the Company 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.

The rate of exchange in effect at 31 March 2004 was US\$1=HK\$7.7952 (2003: US\$1= HK\$7.7993).

THE CHINA FUND

NOTES TO FINANCIAL STATEMENTS (cont'd.) 31 MARCH 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

(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) Dividend payable

Dividends proposed by the Directors are accounted for when they have been approved by the shareholders at the annual general meeting and declared by the Board of Directors.

(k) Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are carried at cost, that is the fair value of the consideration to be paid in the future for financial assets, derivatives and services received, whether or not billed to the Company. Payables to related parties are carried at cost.

No aged analysis is disclosed as, in the opinion of the Directors, an aged analysis is not meaningful in view of the nature of the business of investment in equity securities.

(l) Cash and cash equivalents

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.

Cash on hand and at banks which are denominated in United States dollars are carried at cost. Cash denominated in other currencies are translated into United States dollars at the applicable rates of exchange at the balance sheet date.

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.

THE CHINA FUND

NOTES TO FINANCIAL STATEMENTS (cont'd.) 31 MARCH 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

(m) 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.

4. LISTED INVESTMENTS

	2004 US\$	2003 US\$
Listed investments, at cost	33,184,219	20,277,121
Unrealized gains/(losses)	<u>4,950,008</u>	<u>(181,475)</u>
Market value at 31 March	<u><u>38,134,227</u></u>	<u><u>20,095,646</u></u>

A detailed portfolio listing is set out on page 36.

5. CASH AND CASH EQUIVALENTS

	2004 US\$	2003 US\$
Cash at banks – interest-bearing	1,353,113	1,275,899
Cash at banks – non interest-bearing	<u>1,894,073</u>	<u>279</u>
	<u><u>3,247,186</u></u>	<u><u>1,276,178</u></u>

The cash at banks of US\$1,353,113 placed in interest-bearing accounts had interest rates ranging from 0.01% to 0.50% per annum.

THE CHINA FUND

NOTES TO FINANCIAL STATEMENTS (cont'd.)
31 MARCH 2004

6. SHARE CAPITAL

	2004	2003
	<i>US\$</i>	<i>US\$</i>
Authorized:		
90,000,000 ordinary shares of		
US\$0.01 each	<u>900,000</u>	<u>900,000</u>
Issued and fully paid:		
1,048,455 (2003: 1,149,752)		
ordinary shares of US\$0.01 each	<u>10,485</u>	<u>11,498</u>

THE CHINA FUND

NOTES TO FINANCIAL STATEMENTS (cont'd.) 31 MARCH 2004

6. SHARE CAPITAL (cont'd.)

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 Company paid US\$1,808,290 (2003: US\$1,907,459) in aggregate for the shares repurchased during the year. Repurchase proceeds of US\$1,252,350 were payable as at 31 March 2004 (2003: Nil). Details of the repurchases of shares on a monthly basis were as follows:

Month	Number of shares repurchased	Repurchase price range US\$
April 2003	1,600	18.73
May 2003	7,213	18.21
June 2003	22,329	20.88 – 21.86
July 2003	200	21.85
August 2003	796	26.23
September 2003	18,500	25.30 – 26.62
October 2003	414	29.56
November 2003	1,265	30.79
December 2003	—	—
January 2004	9,980	37.80 – 37.91
February 2004	4,000	36.95 – 37.89
March 2004	35,000	37.95 – 38.73
	<u>101,297</u>	

THE CHINA FUND

NOTES TO FINANCIAL STATEMENTS (cont'd.) 31 MARCH 2004

6. SHARE CAPITAL (cont'd.)

The Company's shares may be issued or repurchased on any valuation day, which is defined as any Hong Kong business day pursuant to the Explanatory Memorandum. The Company did not buy back any of its listed ordinary shares on the HKSE during the year (2003: Nil).

7. NET ASSET VALUE PER SHARE

The calculation of Net Asset Value per share is based on the net assets as at 31 March 2004 of US\$39,970,181 (2003: US\$21,610,709) and 1,048,455 (2003: 1,149,752) ordinary shares in issue at that date.

8. 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 an annual rate of 0.75%, subject to a minimum annual fee of US\$100,000.

As at 31 March 2004, US\$22,886 (2003: US\$13,969) 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% on the first 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

THE CHINA FUND

NOTES TO FINANCIAL STATEMENTS (cont'd.) 31 MARCH 2004

8. FEES (cont'd.)

Administration fee (cont'd.)

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

As at 31 March 2004, US\$8,268 (2003: US\$4,612) was payable to the Administrator for the administration fee.

Custodian fee

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

Citibank N.A., Hong Kong as the Company’s 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, the Shenzhen Stock Exchange and the Singapore Exchange Limited, 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\$50 for shares listed on the Singapore Exchange Limited, and US\$40 for shares listed on the HKSE.

As at 31 March 2004, US\$2,802 (2003: US\$1,550) was payable to the Custodian for the custody and transaction fees.

THE CHINA FUND

NOTES TO FINANCIAL STATEMENTS (cont'd.)
31 MARCH 2004

9. DIRECTORS' REMUNERATION

The Directors are entitled to be compensated for their services on the Board of Directors of the Company in the amount of US\$7,500 each (2003: US\$7,500) per year, plus expenses. An arrangement continued during the year, whereby the Executive Directors waived the right to their remuneration and the Non-Executive Directors agreed to reduce their remuneration to US\$5,000 each.

10. 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 PRC as dividends and gains realised from the sale of "B" shares are not taxable.

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

11. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings per share is based on the net profit for the year of US\$21,689,553 (2003: net loss of US\$725,341) and the weighted average of 1,109,691 (2003: 1,221,436) ordinary shares in issue during the year.

Diluted earnings per share have not been presented as there were no diluting events during the year.

THE CHINA FUND

NOTES TO FINANCIAL STATEMENTS (cont'd.) 31 MARCH 2004

12. DIVIDEND

A dividend of US\$0.18 (2003: US\$0.33) per ordinary share, to all ordinary shareholders appearing on the register of members of the Company as at 18 August 2003, totaling US\$201,314 (2003: US\$404,251) related to the year ended 31 March 2003 were declared and paid to those shareholders during the year. A supplementary dividend of US\$0.10 per ordinary share totaling US\$109,911 was paid on 29 September 2003 to all ordinary shareholders whose names appear on the register as at 25 September 2003.

The Board of Directors recommends the payment of a dividend in the amount of US\$0.38 (2003: US\$0.18) per ordinary share totaling US\$375,613 (2003: US\$206,955), payable on 10 September 2004 to all shareholders whose names appear on the share register of the Company on 31 August 2004, respectively. The proposed dividend has not been reflected as a liability in the financial statements as at 31 March 2004.

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

In pursuing its 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 year are contained within its report to the Company.

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.

THE CHINA FUND

NOTES TO FINANCIAL STATEMENTS (cont'd.)
31 MARCH 2004

13. FINANCIAL ASSETS AND LIABILITIES AND RISK MANAGEMENT POLICY OF THE COMPANY (cont'd.)

(a) Market price risk

Market price risk arises mainly from uncertainty about future prices of the financial instruments held. It represents the potential loss which 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 in the investment portfolio on page 36.

THE CHINA FUND

NOTES TO FINANCIAL STATEMENTS (cont'd.)
31 MARCH 2004

13. FINANCIAL ASSETS AND LIABILITIES AND RISK MANAGEMENT POLICY OF THE COMPANY (cont'd.)

(b) Liquidity risk

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

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 shareholdings, at the balance sheet date, and the exchanges on which the Company has liquidity risk exposure are set out in the investment portfolio on page 36.

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 its Risk Committee. 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.

THE CHINA FUND

NOTES TO FINANCIAL STATEMENTS (cont'd.)
31 MARCH 2004

13. FINANCIAL ASSETS AND LIABILITIES AND RISK MANAGEMENT POLICY OF THE COMPANY (cont'd.)

(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 in the investment portfolio on page 36 are denominated in Hong Kong dollars and Singapore dollars.

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 and future cash flows will fluctuate as a result of changes in interest rates.

Other than the interest-bearing bank balances held as at the balance sheet date which had effective interest rates of 0.01% to 0.50% per annum, the Company mainly invests in equity securities and as such, its exposure to interest rate risk is considered to be minimal.

14. TRANSACTIONS WITH CONNECTED PERSONS

In addition to those transactions with connected persons disclosed in notes 8 and 9, the following is a summary of transactions entered into during the year between the Company and the Investment Manager and its connected persons. Connected persons are those as defined in the Listing Rules of the HKSE and in the Code. All such transactions were entered into in the ordinary course of business.

THE CHINA FUND

NOTES TO FINANCIAL STATEMENTS (cont'd.) 31 MARCH 2004

14. TRANSACTIONS WITH CONNECTED PERSONS (cont'd.)

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 year
Deutsche Securities (Asia) Limited		
2004	44,860,631	28.05
2003	9,862,749	28.55
	Total commission paid on the above transactions US\$	Average commission rate %
Deutsche Securities (Asia) Limited		
2004	95,809	0.21
2003	24,657	0.25

15. 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 including Deutsche Securities (Asia) Limited, a connected party. 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.

THE CHINA FUND

NOTES TO FINANCIAL STATEMENTS (cont'd.)
31 MARCH 2004

16. RELATED PARTY TRANSACTIONS

The Company's transactions with related parties are detailed in notes 8, 9, 14 and 15 to the financial statements.

17. CONSIDERATION OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN HONG KONG ("HK GAAP")

There are no material differences that would require the financial statements of the Company for the year, which have been prepared in accordance with IFRS, to be adjusted to conform with HK GAAP.

18. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the Board of Directors on 20 July 2004.