

THE CHINA FUND

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

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.

Upon the recommendation of the Directors, the intention to wind up the affairs of the Company will be proposed at an Extraordinary General Meeting (“EGM”) which is to be held on 30 December 2004. Should the winding-up resolution be approved, a liquidator will be appointed by the Company to commence the process of liquidation. The Company’s shares will also be delisted from the HKSE and the Company’s authorisation by the SFC will be withdrawn.

THE CHINA FUND

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

1. GENERAL (Cont'd)

Liquidation expenses of US\$75,000 have been accrued in the financial statements as at 30 September 2004. Accordingly, these financial statements have been prepared on the net realization basis rather than on a going concern basis, the principal impact of which has been the reclassification of listed investments to current assets.

The Company has issued a circular to its shareholders explaining the details of the proposed voluntary winding-up of the Company on 30 November 2004.

The interim report and unaudited financial statements for the six months ended 30 September 2004 have been reviewed by the Audit Committee of the Company.

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, 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 net realization basis. Comparative amounts for the six months period ended 30 September 2003 and as at 31 March 2004 were prepared on a going concern basis, and consequently may not be comparable with amounts stated at 30 September 2004.

(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.

THE CHINA FUND

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. 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.

As outlined in Note 1 above, given the intention for the Company to be wound up, the Company’s listed investments have been reclassified to current assets in the current period.

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.

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.

THE CHINA FUND

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

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

(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 Stock Exchange of Hong Kong Limited ("HKSE"). The dividends receivable included in the Company's balance sheet as at 30 September 2004 will be 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 30 September 2004 and 31 March 2004 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 2004 were settled in accordance with these trade terms.

THE CHINA FUND

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 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.

THE CHINA FUND

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

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

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

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.

(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 Hong Kong Inland Revenue Ordinance.

THE CHINA FUND

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

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.

As at 30 September 2004, US\$21,178 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

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

As at 30 September 2004, US\$7,247 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, the Shenzhen Stock Exchange and Singapore Exchange Limited, and 0.03% for the investments listed on the HKSE.

THE CHINA FUND

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

4. FEES (Cont'd)

Custodian fee (Cont'd)

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\$50 for shares listed on the Singapore Exchange Limited.

As at 30 September 2004, US\$2,353 was payable to the sub-custodian for custodian and transaction fees.

5. LOSS/EARNINGS PER SHARE

The calculation of basic loss/earnings per share is based on the net loss for the period of US\$2,691,571 (30/9/03: net income of US\$9,065,048) and the weighted average of 1,019,746 (30/9/03: 1,128,155) ordinary shares in issue during the period.

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

6. LISTED INVESTMENTS

	30/9/2004 US\$	31/3/2004 US\$
Listed investments, at cost	30,862,559	33,184,219
Unrealized gains	2,156,479	4,950,008
	<hr/>	<hr/>
Market value at balance sheet date	<u>33,019,038</u>	<u>38,134,227</u>

A detailed portfolio listing is set out on page 10.

THE CHINA FUND

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

7. 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 period are contained within its report to the Company.

The investments held by the Company are set out in the Investment Portfolio on page 10. 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 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 CHINA FUND

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

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

(a) Market price risk (Cont'd)

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 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.

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 in the investment portfolio 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 CHINA FUND

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

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

(c) Credit risk (Cont'd)

The Investment Manager buys and sells investments only through brokers which have been approved by the 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.

(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. As at 30 September 2004, the Company's listed investments are all quoted on The Stock Exchange of Hong Kong, as set out in the investment portfolio on page 10, and are all denominated in Hong Kong 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 0.5% per annum, the Company mainly invests in equity securities and as such, its exposure to interest rate risk is considered to be relatively minimal.

THE CHINA FUND

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

8. SHARE CAPITAL

	30/9/2004 US\$	31/3/2004 US\$
Authorized:		
90,000,000 ordinary shares of US\$0.01 each	<u>900,000</u>	<u>900,000</u>
Issued and fully paid:		
987,455 (31/3/04: 1,048,455) ordinary shares of US\$0.01 each	<u>9,875</u>	<u>10,485</u>

The Company repurchased 61,000 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\$33.02 to US\$33.24 per share. The Company paid US\$2,027,420 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.

9. NET ASSET VALUE PER SHARE

The calculation of net asset value per share is based on net assets as at 30 September 2004 of US\$34,886,624 (31/3/04: US\$39,970,181) and 987,455 (31/3/04: 1,048,455) 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 2004 (30/9/03: Nil).

A final dividend in relation to the year ended 31 March 2004 of US\$0.38 per ordinary share totalling US\$375,233 was paid on 10 September 2004 to all shareholders appearing on the share register of the Company on 31 August 2004.

THE CHINA FUND

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

11. DIRECTORS' INTERESTS

As at 30 September 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.

At no time during the period 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.

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 contract of significance to the Company's business to which the Company was a party during the period.

No director has a service contract with the Company during the period.

THE CHINA FUND

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

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.

Execution of investment transactions by a connected persons of the Investment Manager:

	Total purchases and sales of securities US\$	% of the Company's total transactions during the period
Deutsche Securities (Asia) Limited		
1/4/04-30/9/04	12,248,113	15.25
1/4/03-30/9/03	22,410,878	48.91
	Total commission paid on the above transactions US\$	Average commission rate %
Deutsche Securities (Asia) Limited		
1/4/04-30/9/04	24,537	0.20
1/4/03-30/9/03	47,147	0.21

THE CHINA FUND

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

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 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.

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 30 September 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:

	Number of ordinary shares	% of Company’s issued capital
Citivic Nominees Limited*	965,173	97.74%

* *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 62.94% of the Company’s issued capital as at 30 September 2004.*

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

THE CHINA FUND

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

16. 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 period ended 30 September 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.

17. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, upon the recommendation of the Directors, the intention to wind up the affairs of the Company will be proposed at an EGM which is to be held on 30 December 2004. The Company has issued a circular to its shareholders explaining the details of the proposed voluntary wind-up of the Company on 30 November 2004.