



# THE CHINA FUND

*(An exempted company incorporated in the Cayman Islands with limited liability)*

## 2002 INTERIM RESULTS

(Unaudited)

### BUSINESS REVIEW AND OUTLOOK

The China Fund's net asset value per share decreased 9.7% in the six months to 30 September 2002. This compares with a 13.3% decrease in the CLSA China World Index in the same period. The outperformance was attributable to the Company's focus on stocks with leading domestic market positions and good earnings prospects.

Chinese stocks had a strong rally in the first six months of 2002 but were subsequently sold off by profit-taking activities in July. Stocks that focused on domestic markets as well as export related operations were the best performers. Expectations of potential mergers and acquisitions also boosted the performance of stocks with restructuring prospects.

Despite the slow-down in global economy, China posted stronger than expected GDP growth of around 8% in the last two quarters, mainly driven by strong export growth. Going forward, GDP growth is likely to moderate as a result of less aggressive spending by the government.

Although there may be confusion arising from potential changes in senior officials of the government during the 16th Party Congress, it is nonetheless believed that political power will be transferred smoothly and new leaders will continue to follow in the footsteps of their predecessors to reform the economy. The Company will continue to focus on stocks that have strong earnings prospects with less regulatory risk and reliance on global economy.

## FINANCIAL HIGHLIGHTS

	<b>30/9/02</b>	<b>31/3/02</b>
	<i>US\$</i>	<i>US\$</i>
Net Asset Value	21,880,779	24,265,954
Net Asset Value per share	17.79	19.70

## CONDENSED REVENUE ACCOUNT

	<b>Half-year ended 30/9/02</b>	<b>Half-year ended 30/9/01</b>
	<i>US\$</i>	<i>US\$</i>
<b>Income</b>		
Bank interest income	4,892	26,370
Dealing charges received	3,498	9,614
Dividend income	558,068	675,019
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	566,458	711,003
<b>Expenses</b>	<hr/>	<hr/>
	(217,736)	(182,474)
<b>NET INCOME FOR THE PERIOD BEFORE EQUALIZATION</b>	348,722	528,529
Equalization on repurchase and issue of shares	(3,020)	(43,438)
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<b>NET INCOME FOR THE PERIOD AFTER EQUALIZATION</b>	345,702	485,091
<b>INVESTMENT AND EXCHANGE DIFFERENCES</b>		
Net change in unrealized losses on listed investments	(2,151,223)	(3,096,616)
Net realized (losses)/gains on sale of listed investments	(116,342)	73,094
Net foreign exchange (losses)/gains	(1,189)	4,205
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	(2,268,754)	(3,019,317)
<b>NET LOSS FOR THE PERIOD ATTRIBUTABLE TO SHAREHOLDERS</b>	<hr/> <hr/>	<hr/> <hr/>
	(1,923,052)	(2,534,226)
<b>LOSS PER SHARE – BASIC</b>	<hr/> <hr/>	<hr/> <hr/>
	(1.5700)	(2.0355)

## RESERVES

Movements in reserves during the current period were as follows:

	<b>Capital reserve</b> <i>US\$</i>	<b>Revenue reserve</b> <i>US\$</i>
Balance at 1st April 2002	11,017,839	1,814,852
Net loss for the period	–	(1,923,052)
Dividends	–	(404,251)
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Balance at 30th September 2002	<u>11,017,839</u>	<u>(512,451)</u>

Movements in reserves during the corresponding prior period were as follows:

	<b>Capital reserve</b> <i>US\$</i>	<b>Revenue reserve</b> <i>US\$</i>
Balance at 1st April 2001	11,017,839	873,797
Net loss for the period	–	(2,534,226)
Dividends	–	(296,552)
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Balance at 30th September 2001	<u>11,017,839</u>	<u>(1,956,981)</u>

## BALANCE SHEET

	30/9/2002	31/3/2002
	US\$	US\$
LISTED INVESTMENTS	20,508,827	23,247,618
CURRENT ASSETS		
Cash and cash equivalents	1,339,970	978,429
Dividends receivable	66,261	85,126
	<u>1,406,231</u>	<u>1,063,555</u>
TOTAL ASSETS	<u>21,915,058</u>	<u>24,311,173</u>
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	34,279	45,219
NET ASSETS	<u>21,880,779</u>	<u>24,265,954</u>
Financed by:		
SHARE CAPITAL	12,296	12,319
RESERVES	21,868,483	24,253,635
	<u>21,880,779</u>	<u>24,265,954</u>
NUMBER OF SHARES IN ISSUE	<u>1,229,625</u>	<u>1,231,914</u>
NET ASSET VALUE PER SHARE	<u>US\$17.79</u>	<u>US\$19.70</u>

## 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 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.

## **LOSS PER SHARE – BASIC**

The calculation of basic loss per share is based on the net loss for the period of US\$1,923,052 (2001: US\$2,534,226) and the weighted average of 1,224,838 (2001: 1,245,006) ordinary shares in issue during the period.

## **DIVIDEND**

The Board of Directors does not recommend the payment of an interim dividend (2001: nil).

## **TAX**

The Company is incorporated in the Cayman Islands. Under the taxation laws presently in force in the Cayman Islands, no local taxes will be chargeable on any income, profits or capital gains of the Company.

No provision has been made for tax in the People's Republic of China as dividends and gains realised from the sale of "B" shares are not taxable.

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

## **DIRECTORS' INTERESTS**

At 30th September 2002, none of the Directors or their associates had an interest, either beneficially or non-beneficially, in the share capital of the Company.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

During the period, the Company issued and repurchased its own shares as follows:

	<b>Number of shares</b>	<b>Highest price US\$</b>	<b>Lowest price US\$</b>
Subscriptions	15,949	20.10	18.57
Repurchases	18,238	20.74	18.34

Subscriptions and repurchases may be made daily at Net Asset Value per share plus or minus a dealing charge.

The Company did not buy back any of its listed ordinary shares on The Stock Exchange of Hong Kong Limited during the period. No pre-emptive rights exist under Cayman Islands Law in relation to issue of new listed securities by the Company.

## **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 (“Listing Rules”) throughout the six months ended 30th September 2002, 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 of Best Practice.

## **PUBLICATION OF INTERIM RESULTS ON THE WEBSITE TO THE STOCK EXCHANGE OF HONG KONG LIMITED**

A detailed condensed interim financial statements containing the information required by paragraph 46(1) to 46(6) of Appendix 16 to the Listing Rules will be published on the website of the Stock Exchange in due course.

By order of the Board  
**FORTIS FUND SERVICES (ASIA) LIMITED**  
*Assistant Secretary*

Hong Kong, 25 November 2002

*A copy of the interim report and any further information are available from the Assistant Secretary, Fortis Fund Services (Asia) Limited, 3701 Cosco Tower Grand Millennium Plaza, 183 Queen’s Road Central Hong Kong. Contact 2847-9511.*

Please also refer to the published version of this announcement in South China Morning Post.