



# THE CHINA FUND

(An exempted company incorporated with limited liability in the Cayman Islands)  
(Stock Code: 215)

## FINAL RESULTS For the year ended 31st March 2004 (Audited)

### BUSINESS REVIEW AND OUTLOOK

The China Fund's net asset value per share increased 104.9% during the year. This compares with a 77.8% increase in the CLSA China World Index in the same period. The strong outperformance was due mainly to the focus on stocks with substantial cyclical earnings growth such as metal stocks, as well as stocks that benefit from a shortage of resources and energy, such as oil and coal stocks. A shift from cyclical stocks to the consumer sector in the first quarter of 2004 also contributed significantly to the performance.

China's economy grew strongly by 9.1% and 9.7% in 2003 and the first quarter of 2004 respectively. Despite the tightening measures taken by the government to cool down the economy, especially in several identified overheated industries, China's economic growth is unlikely to be derailed. Whilst investments are slowing down, consumption is picking up noticeably which will continue to support steady economic growth. Investors are generally impressed by the government's proactive approach to address over-investment as well as its effort to stimulate consumption and accelerate reforms in the banking and rural sectors.

After strong performance in 2003 and the first quarter of 2004, China shares are undergoing a consolidation period on concerns that corporate earnings would be negatively affected by the macro tightening. As earnings expectations are high, downgrades are anticipated in the next few months. However, sectors such as telecommunications, oil, infrastructure and transportation are expected to continue to grow steadily due to strong consumer spending or persistent shortages. These sectors are expected to be more immune to the macro tightening and will thus be a focus for the China Fund.

### FINANCIAL HIGHLIGHTS

	31/3/2004 US\$	31/3/2003 US\$
Net Assets	39,970,181	21,610,709
Net Asset Value per share	38.12	18.80

### REVENUE ACCOUNT

	Year ended 31/3/2004 US\$	Year ended 31/3/2003 US\$
<b>INCOME</b>		
Bank interest income	2,592	8,958
Dealing charges	15,941	12,046
Dividend income	877,458	655,140
	<u>895,991</u>	<u>676,144</u>
<b>EXPENSES</b>		
Administration fee	81,078	58,672
Audit fee	17,550	17,415
Bank charges	1,110	1,167
Custodian fee	23,539	12,975
Directors' remuneration	15,000	15,000
Investment management fee	235,793	177,187
Other operating expenses	102,856	138,367
	<u>476,926</u>	<u>420,783</u>
<b>INCOME FOR THE YEAR BEFORE EQUALIZATION</b>	<b>419,065</b>	<b>255,361</b>
Equalization on issue of shares	-	1,410
Equalization on repurchase of shares	(41,784)	(28,035)
<b>INCOME FOR THE YEAR AFTER EQUALIZATION</b>	<b>377,281</b>	<b>228,736</b>
<b>INVESTMENT AND EXCHANGE DIFFERENCES</b>		
Net realized gains on sale of listed investments	16,234,738	558,637
Net change in unrealized gains/(losses) on listed investments	5,131,483	(1,509,569)
Net foreign exchange losses	(53,949)	(3,145)
	<u>21,312,272</u>	<u>(954,077)</u>
<b>INCOME/(LOSS) BEFORE TAX</b>	<b>21,689,553</b>	<b>(725,341)</b>
<b>TAX</b>	<b>-</b>	<b>-</b>
<b>NET INCOME/(LOSS) FOR THE YEAR</b>	<b>21,689,553</b>	<b>(725,341)</b>
<b>EARNINGS/(LOSS) PER SHARE – BASIC</b>	<b>19.55</b>	<b>(0.5938)</b>

### 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 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.

## EARNINGS/(LOSS) PER SHARE – BASIC

The calculation of basic earnings per ordinary share is based on the net earnings 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.

## DIVIDEND

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

## RESERVES

Movements in reserves during the prior and current years were as follows:

	<b>Capital reserve US\$</b>	<b>Revenue reserve US\$</b>
Balance at 1st April 2002	11,017,839	1,814,852
Net loss for the year	–	(725,341)
Transfer to capital reserve	(725,341)	725,341
Dividend	–	(404,251)
	<hr/>	<hr/>
Balance at 31st March 2003 and 1st April 2003	10,292,498	1,410,601
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Net income for the year	–	21,689,553
Dividend	–	(311,225)
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Balance at 31st March 2004	<u>10,292,498</u>	<u>22,788,929</u>

## 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 PRC 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.

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

During the year, the Company repurchased 101,297 (2003: 101,149) and did not issue any (2003: 18,987) of its listed ordinary shares. The repurchase prices ranged from US\$18.21 to US\$38.73 per share (2003: US\$16.67 to US\$20.74 per share). Subscription 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 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 20th January 1992 (date of incorporation) to 31st 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 31st March 2004.

## CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has 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 31st 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.

## DIRECTORS’ INTERESTS AND SHORT POSITIONS IN SHARES

At 31st March 2004, none of the Directors or their associates had registered an interest or short positions in the share capital of the Company or any associated corporations.

## PUBLICATION OF DETAILED ANNUAL RESULTS ON THE STOCK EXCHANGE’S WEBSITE

The annual report of the Company containing all the information required under the Listing Rules will be published on the Stock Exchange’s website in due course.

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

Hong Kong, 20th July 2004

*A copy of the annual report and any further information is available from the Assistant Secretary, Fortis Prime Fund Solutions (Asia) Limited, 3701 Cosco Tower, Grand Millennium Plaza, 183 Queen’s Road Central, Hong Kong. Contact 2847-9514.*

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## NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of The China Fund (the “Company”) will be held at the office of Fortis Fund Services (Cayman) Limited, Grand Pavilion Commercial Centre, Bougainvillea Way, 802 West Bay Road, Grand Cayman, Cayman Islands, British West Indies on 31st August 2004 at 10 a.m. when the following business will be transacted:

### Ordinary

1. To receive and consider the financial statements of the Company and the reports of the Directors and the Auditors for the year ended 31st March 2004.
2. To resolve that a final dividend in the amount of US\$0.38 per ordinary share will be declared.
3. To re-elect Michael Shelley and Choy Peng Wah as Directors.
4. To re-appoint the Auditors for the ensuing year and to authorise the Directors to fix their remuneration.
5. To transact any other business which may be properly transacted at an annual general meeting.

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

Date: 20th July 2004

Registered Office:

P.O. Box 2003 GT  
Grand Pavilion Commercial Centre  
Bougainvillea Way  
802 West Bay Road  
Grand Cayman  
Cayman Islands  
British West Indies

*Notes:*

1. Forms of proxy may be deposited at Fortis Fund Services (Cayman) Limited c/o Fortis Prime Fund Solutions (Asia) Limited at 3701 Cosco Tower, Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong no later than 48 hours before the time specified above for the holding of the meeting.
2. Proxies need not be members of the Company.
3. No Director of the Company has a contract of service with the Company.

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