



## THE CHINA FUND, INC. (CHN)



### IN BRIEF

Net asset value per share	US\$28.18
Market price	US\$32.90
Premium/discount	16.75%
Fund size	US\$284.1m

Source: State Street Corporation. \*Source for index data: MSCI.  
Past performance is not a guide to future returns.

At March 31, 2004	China Fund NAV	US\$ returns
	%	MSCI Golden Dragon*
	%	%
One month return	-3.2	-5.4
One year return	74.6	63.1

### MANAGER'S COMMENTARY

March was a difficult month. Another round of government measures to tighten credit soured sentiment towards China. A few high-profile dud IPOs further convinced investors that the glass was now half-empty. Excellent results - and there were many - were treated as already in the price. Meanwhile, companies announcing poor results were given a sound thrashing. We had anticipated much of this (see our recent monthlies). So your Fund was relatively unaffected - we own few of the state-owned 'H' shares and red chips, and we avoided the over-priced IPOs. The Fund suffered, however, from the election-eve shooting of Taiwan's president, Chen Shui-bian, which effectively changed the result. We are long of Taiwan, where the credit cycle is at an earlier stage and we can currently find a plethora of well-managed growth companies at low prices. In the belief that this is a temporary upset, and that the difference between a Chen and Lien administration is more apparent than real, we maintain our bullish stance.

In mainland politics, at the second session of the 10th National People's Congress some important amendments to the Constitution were passed. For the first time, protection of a citizen's private property is explicitly stated. Stimulation of the rural economy, through the reduction of rural taxes, was shown as a clear priority. Also, in the press conference afterwards, Premier Wen Jiabao stressed the importance of countering over-investment and inflationary pressure. He likened the challenge to that presented last year by SARS. Fine words notwithstanding, fixed asset investment in January and February still grew by an alarming 53% year-on-year. This prompted the government to take further measures to control credit. However, the limited rise in the reserve ratio and re-discount rate show that the authorities are sensitive to the dangers of stamping too hard on the brake. The producer price index increased by 3.5% year-on-year in February, indicating further inflationary pressures ahead.

*Chris Ruffle, Martin Currie Inc*

### DIRECT INVESTMENT MANAGER'S COMMENTARY

The People's Bank of China (PBOC), the central bank of PRC, has decided to differentiate the reserve deposit ratio based on banks' capital adequacy ratio and asset quality status. Starting from April 25, 2004, banks with lower capital adequacy ratios and higher rates of non-performing loans will be subject to a higher reserve deposit ratio (7.5%), thus slowing their ability to expand; while banks with higher capital adequacy ratios and lower rates of non-performing loans will remain subject to the 7% reserve ratio, permitting them to expand more quickly.

This is a further step to improve the banking system in the PRC which will be beneficial to the sustainability of the country's economic growth. The real effect of higher reserve deposit ratios business expansion of enterprises in the PRC should be limited as foreign direct investment activities remain strong. We intend to capitalize on this favorable environment to add quality direct investments to the Fund's portfolio that are expected to boost the Fund's NAV in the future.

*KOH Kuek Chiang, Asian Direct Capital Management*

### INVESTMENT STRATEGY

Your Fund is 95% invested with holdings in 53 companies. Of the portfolio companies, two are unlisted. 35% of the fund is invested in Taipei-listed companies.

We did more selling than buying during the month, raising cash levels and preparing money for new unlisted investments. We took profits on textile stocks, selling long-term holdings Fountain Set, Jingwei Textile Machinery, Luthai Textile and Tainan Enterprises. This is an industry where we expect trade conflict with the US in early 2005. We also sold Brilliance Auto, fearing looming overcapacity and pressure on margins in the automotive industry.

On the buy side, we subscribed to new listings **Weichai** (diesel engines) and **Solomon Systech** (IC design). We added to our holding in **China Rare Earth**, which we expect to announce strong results on rising rare earth and refractory material prices. Amid the election furore in Taiwan, we bought **Ability** (digital cameras), **CMC** (DVDs) and **Yieh United** (Taiwan's only integrated stainless steel mill). We expect the latter to achieve a full listing through a reverse takeover at the end of September.

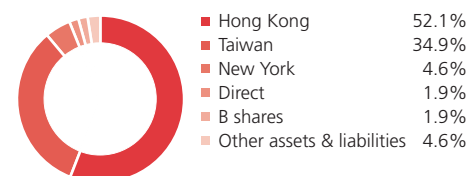
*Chris Ruffle, Martin Currie Inc*

## FUND DETAILS

Market cap*	US\$354.58m
Shares outstanding	10,081,913
Exchange listed	NYSE
Listing date	July 10, 1992
Investment adviser	Martin Currie Inc
Direct investment manager	Asian Direct Capital Management

Source: State Street Corporation. \*Source: Copyright 2002 Bloomberg LP.

## ASSET ALLOCATION



Source: State Street Corporation

## SECTOR ALLOCATION

	The China Fund, Inc	MSCI Golden Dragon*
Industrials	21.4%	13.0%
Information technology	17.1%	19.8%
Consumer discretionary	12.0%	7.1%
Materials	8.8%	6.8%
Telecommunications	8.5%	7.4%
Utilities	8.0%	9.1%
Financials	7.3%	30.8%
Consumer staples	6.3%	0.7%
Energy	3.0%	5.2%
Healthcare	3.0%	0.1%
Other assets & liabilities	4.6%	-
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

Source: State Street Corporation. \*Source for index data: MSCI.

## PERFORMANCE

## US\$ RETURNS

	NAV %	Market price %
One month	-3.2	-5.1
Year to date	7.6	-19.3
Three years (annualized)	30.0	48.6

Source: State Street Corporation  
Past performance is not a guide to future returns.

## DIRECT INVESTMENTS (1.9%)

Captive Finance	Financials	1.1%
Tomoike Industrial (HK) Ltd	Industrials	0.8%

## 15 LARGEST LISTED INVESTMENTS (47.0%)

Chaoda Modern Agriculture	Consumer staples	5.4%
Sohu Com	Information technology	4.6%
TCL International	Consumer discretionary	4.2%
BYD	Industrials	3.9%
Comba Telecom Systems	Telecommunications	3.3%
China Metal Products	Materials	3.1%
Yanzhou Coal Mining	Energy	3.0%
Shenzhen Expressway	Utilities	2.7%
Anhui Expressway	Utilities	2.7%
Xiniao Gas	Utilities	2.6%
Cathay Financial	Financials	2.5%
Fountain Set	Materials	2.3%
First Tractor	Industrials	2.3%
Vanguard International	Information technology	2.2%
Merry Electronics	Consumer discretionary	2.2%

Source: State Street Corporation

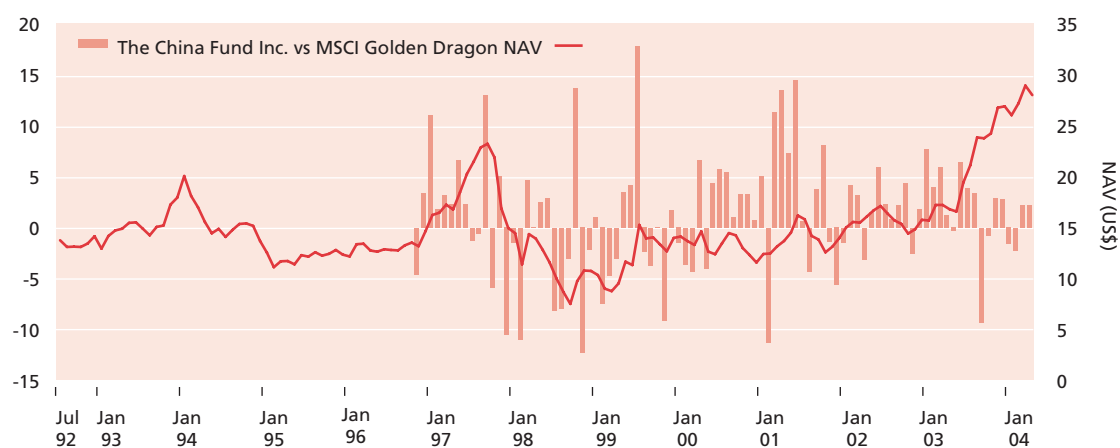
## FUND PERFORMANCE

## US\$ RETURNS

	One month %	Three months %	Calendar year to date %	One year %	Three years % pa	Five years % pa	Since launch % pa
The China Fund, Inc.	-3.2	7.6	7.6	74.6	30.0	26.1	9.0
MSCI Golden Dragon	-5.4	5.3	5.3	63.1	4.5	2.7	n/a
Hang Seng Chinese Enterprise	-6.4	-5.2	-5.2	118.7	38.1	25.4	n/a

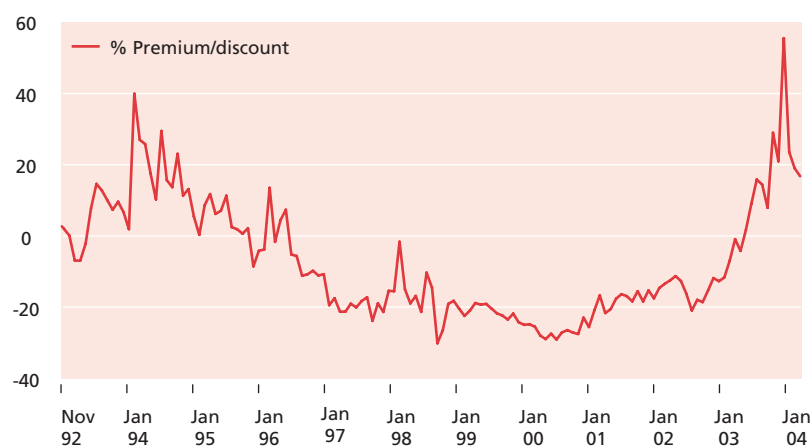
Source: State Street Corporation. Launch date July 10, 1992. Three year, five year and since launch returns are all annualized.  
Source for index data: MSCI for the MSCI Golden Dragon and Copyright 2002 Bloomberg LP for the Hang Seng Chinese Enterprise.  
Past performance is not a guide to future returns.

## PERFORMANCE IN PERSPECTIVE



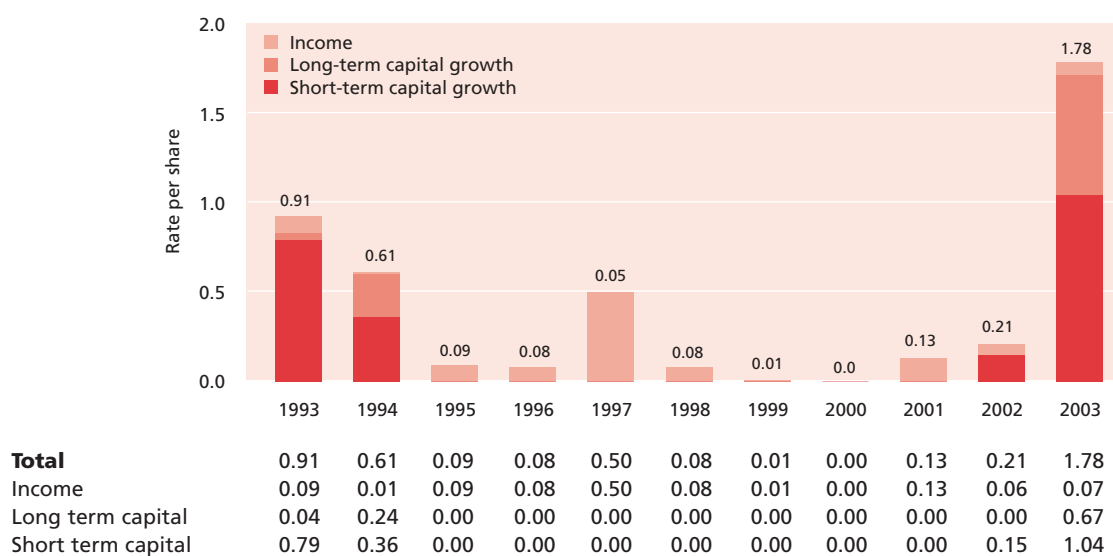
Source: Martin Currie Inc as of March 31, 2004. Past performance is not a guide to future returns.

## THE CHINA FUND INC. PREMIUM/DISCOUNT



Source: Martin Currie Inc as of March 31, 2004. Past performance is not a guide to future returns.

## DIVIDEND HISTORY CHART\*



Source: State Street Corporation as of March 31, 2004. Past performance is not a guide to future returns.

## THE PORTFOLIO - IN FULL

AT MARCH 31, 2004

Sector	Company (BBG ticker)	Price	Holding	Value \$	% of portfolio
<b>Hong Kong</b>					<b>52.1</b>
Chaoda Modern Agriculture	682 HK	HK\$2.80	43,089,900	15,482,660	5.4
TCL International	1070 HK	HK\$2.90	32,318,000	11,923,242	4.2
BYD	1211 HK	HK\$26.90	3,225,000	11,132,534	3.9
Comba Telecom Systems	2342 HK	HK\$4.775	15,356,000	9,409,434	3.3
Yanzhou Coal Mining	1171 HK	HK\$8.65	7,786,000	8,642,563	3.0
Shenzhen Expressway	548 HK	HK\$2.825	21,494,000	7,791,978	2.7
Anhui Expressway	995 HK	HK\$2.98	17,778,000	7,528,507	2.7
Xinao Gas	2688 HK	HK\$4.05	13,976,000	7,263,567	2.6
Fountain Set	420 HK	HK\$5.75	9,050,000	6,619,657	2.3
First Tractor	34 HK	HK\$2.525	19,950,000	6,464,223	2.3
Golden Meditech	8180 HK	HK\$3.40	13,950,000	6,086,466	2.1
TPV Technology	903 HK	HK\$4.70	9,968,000	6,011,986	2.1
Sinotrans	598 HK	HK\$3.15	12,065,000	4,876,968	1.7
Proview International	334 HK	HK\$2.05	17,644,000	4,641,549	1.6
China Telecom	728 HK	HK\$2.75	13,000,000	4,587,627	1.6
China Fire Safety	8201 HK	HK\$0.56	50,380,000	3,620,414	1.3
Ocean Grand Chemicals	2882 HK	HK\$1.33	17,379,000	2,966,118	1.0
Beiren Printing Machinery	187 HK	HK\$3.175	7,000,000	2,852,028	1.0
Hong Kong.com	8006 HK	HK\$0.71	30,232,000	2,754,465	1.0
Beijing Capital International Airport	694 HK	HK\$2.78	7,520,000	2,702,016	1.0
China Rare Earth	769 HK	HK\$1.27	15,254,000	2,525,140	0.9
Natural Beauty Bio-Technology	157 HK	HK\$0.58	32,780,000	2,439,771	0.9
Sino Golf	361 HK	HK\$1.56	11,835,000	2,369,217	0.8
Jingwei Textile Machinery	350 HK	HK\$2.60	5,936,000	1,999,564	0.7
Solomon Systech	2878 HK	HK\$1.83	8,472,000	1,921,804	0.7
Sinopec Beijing Yanhua	325 HK	HK\$2.90	4,428,000	1,662,056	0.6
Weichai Power	2338 HK	HK\$15.55	610,000	1,213,315	0.4
Arcontech	8097 HK	HK\$0.17	18,386,000	408,174	0.2
<b>Taiwan</b>					<b>34.9</b>
China Metal Products	1532 TT	NT\$49.4	5,873,408	8,805,656	3.1
Cathay Financial	2882 TT	NT\$59.5	3,862,000	6,973,870	2.5
Vanguard International Semiconductor	5347 TT	NT\$15.0	14,000,000	6,373,293	2.2
Merry Electronics	2439 TT	NT\$73.5	2,844,208	6,344,440	2.2
Wintek	2384 TT	NT\$40.5	5,040,000	6,194,841	2.2
Synnex Technologies	2347 TT	NT\$64.0	2,950,640	5,731,137	2.0
Fubon Financial	2881 TT	NT\$34.6	5,453,952	5,727,063	2.0
Taiwan Green Point	3007 TT	NT\$97.0	1,831,200	5,390,786	1.9
ChungHwa Telecom	2412 TT	NT\$56.5	3,055,000	5,238,467	1.8
Chicony Electronics	2385 TT	NT\$68.0	2,500,960	5,161,314	1.8
Ability Enterprise	2374 TT	NT\$29.4	5,614,840	5,009,903	1.8
Polaris Securities	6011 TT	NT\$19.4	8,359,377	4,921,758	1.7
Cheng Shin Rubber	2105 TT	NT\$47.4	2,516,400	3,619,950	1.3
United Microelectronics	2303 TT	NT\$29.6	4,000,000	3,593,323	1.3
Taiwan Hon Chuan Enterprise	9939 TT	NT\$43.8	2,544,435	3,382,284	1.2
Data Systems Consulting	2477 TT	NT\$26.8	3,968,339	3,227,663	1.1
Soft-World International	5478 TT	NT\$128.5	790,000	3,080,880	1.1
Tsann Kuen Enterprise	2430 TT	NT\$56.5	1,700,000	2,915,023	1.0
CMC Magnetics	2323 TT	NT\$28.0	3,100,000	2,634,294	0.9
Yieh United Steel	9957 TT	NT\$23.1	3,500,000	2,453,718	0.9
Taiwan FamilyMart	5903 TT	NT\$54.0	1,478,520	2,423,068	0.9
<b>B shares</b>					<b>1.9</b>
China International Marine	200039 CH	HK\$17.44	2,442,747	5,466,848	1.9
<b>New York</b>					<b>4.6</b>
Sohu.com	Sohu US	US\$24.89	526,286	13,099,259	4.6
<b>Direct</b>					<b>1.9</b>
Captive Finance			2,000,000	3,045,000	1.1
Tomoike Industrial			825,000	2,354,045	0.8
<b>Other assets &amp; liabilities</b>					<b>4.6</b>

## OBJECTIVE

---

The investment objective of the Fund is to achieve long term capital appreciation through investment in companies and other entities with significant assets, investments, production activities, trading or other business interests in China or which derive a significant part of their revenue from China.

The Board of Directors of the Fund has adopted an operating policy of the Fund, effective June 30, 2001, that the Fund will invest at least 80% of its assets in China companies. For this purpose, "China companies" are (i) companies for which the principal securities trading market is in China; (ii) companies for which the principal securities trading market is outside of China or in companies organised outside of China, that in both cases derive at least 50% of their revenues from goods or services sold or produced, or have a least 50% of their assets in China; and (iii) companies organized in China. Under the policy, China will mean the People's Republic of China, including Hong Kong, and Taiwan. The Fund will provide its stockholders with at least 60 days' prior notice of any change to the policy described above.

The fundamental policy, which applies to not less than 65% of the Fund's assets as set out in the Fund's prospectus dated July 10, 1992, remains in place. The fundamental policy is the same as the operating policy set out above, except that China only includes the People's Republic of China.

## CONTACTS

---

The China Fund, Inc.  
c/o State Street Bank and Trust Company  
225 Franklin Street  
Boston, MA 02110  
Tel: (1) 888 CHN-CALL (246 2255)  
[www.chinafundinc.com](http://www.chinafundinc.com)

**Important information:** This newsletter is issued and approved by Martin Currie Inc (MC Inc), as investment adviser. MC Inc is authorised and regulated by the Financial Services Authority (FSA) and incorporated under limited liability in New York, USA. Registered in Scotland (No BR2575), registered address Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2ES. Information herein is believed to be reliable but has not been verified by MC Inc. MC Inc makes no representation or warranty and does not accept any responsibility in relation to such information or for opinion or conclusion which the reader may draw from the newsletter.

China Fund Inc (the fund) is classified as a 'non-diversified' investment company under the US Investment Company Act of 1940. It meets the criteria of a closed-ended US mutual fund and its shares are listed on the New York Stock Exchange. MC Inc has been appointed investment adviser to the listed equity portfolio of the fund. Asian Direct Capital Management is the direct investment manager to the fund.

This newsletter does not constitute an offer of shares. MC Inc, its ultimate and intermediate holding companies, subsidiaries, affiliates, clients, directors or staff may, at any time, have a position in the market referred to herein, and may buy or sell securities, currencies, or any other financial instruments in such markets. The information or opinion expressed in this newsletter should not be construed to be a recommendation to buy or sell the securities, commodities, currencies or financial instruments referred to herein.

The information provided in this report should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in an account's portfolio at the time you receive this report or that securities sold have not been repurchased.

It should not be assumed that any of the securities transactions or holdings discussed here were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.

Investors are advised that they will not generally benefit from the rules and regulations of the United Kingdom Financial Services and Markets Act 2000 and the FSA for the protection of investors, nor benefit from the United Kingdom Financial Services Compensation Scheme, nor have access to the Financial Services Ombudsman in the event of a dispute. Investors will also have no rights of cancellation under the FSA's Conduct of Business Sourcebook of the United Kingdom.

Please remember that past performance is not a guide to the future. Markets and currency movements can cause the value of the shares and the income from them to fluctuate and you may get back less than you invested when you decide to sell your shares.