

CHINA FUND INC  
Form 8-K  
February 27, 2002

**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 8-K**

**CURRENT REPORT**  
**PURSUANT TO SECTION 13 OR 15(d) OF THE**  
**SECURITIES EXCHANGE ACT OF 1934**

**January 1, 2002**

Date of Report (Date of Earliest Event Reported)

**The China Fund, Inc.**

(Exact Name of Registrant as Specified in Its Charter)

**Maryland**  
**(State or Other Jurisdiction**  
**of Incorporation)**

**811-6651**  
**(Commission**  
**File Number)**

**000000000**  
**(IRS Employer**  
**Identification Number)**

**225 Franklin Street, Boston, Massachusetts (Address of Principal**  
**Executive Offices)**

**02110**  
**(Zip Code)**

**(212) 808-0500**  
**(Registrant's Telephone Number, Including Area Code)**

**Item 9. Regulation FD Disclosure.**

Pursuant to Regulation FD Rules 100-103, The China Fund, Inc. (the Fund ) furnishes the February 2002 Monthly Update on the Fund by the Fund s Investment Manager.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: February 26, 2002

By:           /s/ Ann M. Casey          

Name: Ann M. Casey

Title: Secretary

# The China Fund, Inc. (CHN)

February 2002

In brief ...

at 31 January 2002

|                            |            |                 |                |                    |
|----------------------------|------------|-----------------|----------------|--------------------|
| Net Asset Value per share* | US         |                 | China Fund NAV | MSCI Golden Dragon |
|                            | \$15.66    |                 |                |                    |
| Market Price*              | US         | 1 month return* | 3.7            | -0.5               |
|                            | \$13.33    |                 |                |                    |
| Premium/Discount*          | 14.8%      | 1 year return*  | 26.2           | -21.6              |
| Fund size*                 | US\$157.7m |                 |                |                    |

\*Source: State Street Corporation/Martin Currie Inc

## Manager's commentary

China's domestic stock markets were weak in January; the Shanghai [A] and [B] share indices fell by 9.2% and 16.8% respectively. This had less to do with the economy slowing - which it is, though still growing at a respectable pace - than with the balance between the supply of new equity and the cash available to buy shares. Interest rates remain low, but the authorities' increasingly strict regulation of the use of funds by banks and brokers has had the effect of reducing market liquidity. At the same time, public discussion of methods of selling the state's holdings, in listed companies to bolster China's under-funded pension schemes, revived fears of massive new equity supply. Taiwan, where your fund has a relatively high proportion of its investments, did the best of the China markets, rising by 10.4% as the prospects of a US economic recovery boosted the share prices of its many exporters.

The first effects of WTO were seen in falling prices - Tianjin Auto initiated another price war in the car market and corn prices slumped. January import figures are expected to show a jump in shipments of materials such as steel and synthetic fibres where import quotas have been abolished and tariffs reduced. This will tend to exacerbate deflationary pressures (December CPI fell by 0.3% year-on-year). This is good news for consumers, but not producers. As with garment makers and the gradual wind-down of the multi-fibre agreement quota system, the benefits for manufacturers will take longer to emerge. The next effects of WTO to surface should be a host of announcements from multi-nationals taking stakes in previously protected industries, such as finance and telecommunications, as soon as the detailed rules are published. This would result in a flood of capital into China, but put increasing pressure on weak incumbents.

## Investment strategy

Your fund is 93.5% invested with holdings in 50 companies. We have a relatively high weighting in Taiwan (36.4%) where we believe there are many well-run companies, trading at low prices, which will be able to benefit disproportionately from the development of the Chinese economy. Overall, we continue to favour private sector companies, where we believe the interests of management and portfolio investor are most closely aligned. There is certainly an [entrepreneur risk], especially with newly listed Chinese private sector enterprises who are unaware of what is expected from a publicly-listed company. However, we believe this is better than the alternative: state-owned companies, where managers often have limited control and motivation, which can be called to do "national service" against the best interests of minority shareholders and which have an overhang of state shares to be sold.

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We took advantage of the sell-down of the so-called "P" shares to invest in **Wah Sang Gas**, and add to the position in **China Rare Earth**. We took profits on stocks where we felt the recent share price run had discounted growth prospects, such as Lite-on IT , Kinpo, V-Tech and Huaneng Power. We also sold the defensive Taiwan Secom. In our small "B" share portfolio, we swapped Eastcom for the autoparts company **Wuxi Weifu**.

In January the trust launched a website at <http://www.chinafundinc.com>. It is part of the board's commitment to keeping shareholders and advisers informed of the progress of the fund. The site includes:

- Background information on the fund

- Performance data

- Who's who, including managers' biographies

- Details of how to invest

- Contact information, if you have any questions or want more information

- Links to other websites holding information on The China Fund, Inc.

- A document library, including reports and back issues of this monthly update.

Please visit the site and tell us what you think. The directors and managers would welcome your ideas for additional information we might include. Simply contact [webmaster@martincurrie.com](mailto:webmaster@martincurrie.com)

**Also the fund's annual general meeting will take place from 10am on 7th March in the offices of Clifford Chance Rogers & Wells LLP, 200 Park Avenue, New York 10166-0153. We urge all shareholders to attend and meet the board of directors and management.**

*Chris Ruffle*

**Fund details\***

|                           |  |
|---------------------------|--|
| Market cap                | <b>\$135m</b>                          |
| Shares outstanding        | <b>10,073,173 shares</b>               |
| Exchange listed           | <b>NYSE</b>                            |
| Listing date              | <b>July 10, 1992</b>                   |
| Investment manager        | <b>Martin Currie Inc</b>               |
| Direct investment manager | <b>Asian Direct Capital Management</b> |

**15 largest listed investments\* (49.9%)**

|                           |                               |     |
|---------------------------|-------------------------------|-----|
| Taipei Bank               | <i>Financials</i>             | 6.2 |
| TCL International         | <i>Information Technology</i> | 4.6 |
| Chunghwa Telecom          | <i>Telecommunications</i>     | 4.5 |
| Yanzhou Coal Mining       | <i>Energy</i>                 | 4.5 |
| Phoenixtec Power          | <i>Electronics</i>            | 4.0 |
| Chinadotcom               | <i>Information Technology</i> | 3.5 |
| Zhejiang Expressway       | <i>Utilities</i>              | 3.0 |
| Ho Tung Chemical          | <i>Materials</i>              | 2.8 |
| TPV Technology            | <i>Information Technology</i> | 2.7 |
| Pacific Construction      | <i>Consumer Discretionary</i> | 2.5 |
| Shangri-La Asia           | <i>Consumer Discretionary</i> | 2.4 |
| Polaris Securities        | <i>Financials</i>             | 2.4 |
| Shanghai Friendship Group | <i>Consumer Staples</i>       | 2.3 |
| Want Want Holdings        | <i>Consumer Staples</i>       | 2.3 |
| Synnex Technologies       | <i>Consumer Discretionary</i> | 2.2 |

**Sector allocation\***

|                        | <b>% of<br/>net assets</b> | <b>MSCI Golden<br/>Dragon %</b> |
|------------------------|----------------------------|---------------------------------|
| Information Technology | 14.6                       | 25.8                            |
| Financials             | 11.7                       | 29.3                            |
| Consumer Staples       | 11.4                       | 0.4                             |
| Consumer Discretionary | 10.0                       | 5.4                             |
| Other                  | 10.7                       | -                               |
| Industrials            | 8.6                        | 18.2                            |
| Materials              | 6.5                        | 3.4                             |
| Energy                 | 6.4                        | 1.4                             |
| Telecoms               | 6.4                        | 9.3                             |
| Utilities              | 4.7                        | 6.7                             |

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|              |              |              |
|--------------|--------------|--------------|
| Health Care  | 2.5          | 0.1          |
| Cash         | 6.5          | -            |
| <b>Total</b> | <b>100.0</b> | <b>100.0</b> |

Asset allocation\* (%)

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**Direct investments\***

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|                                |                       |      |
|--------------------------------|-----------------------|------|
| A-S China Plumbing Products    | <i>Sanitary Ware</i>  | 2.6% |
| Moulin International (2004 CB) | <i>Optical Frames</i> | 1.3% |
| New World Sun City             | <i>Property</i>       | 0.4% |

**Performance\* (in US\$ term)**

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**As at 31 January 2002**

|                       | NAV<br>% | Market price<br>% |
|-----------------------|----------|-------------------|
| One month             | 3.7%     | 7.3%              |
| Calendar year to date | 3.7%     | 7.3%              |
| 3 years **            | 20.9%    | 24.8%             |

**Dividend history\***

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| US\$   | Ex date  |
|--------|----------|
| 0.1321 | 12/31/01 |
| 0.1110 | 12/28/99 |
| 0.0780 | 12/23/98 |
| 0.5003 | 12/23/97 |
| 0.0834 | 12/27/96 |
| 0.0910 | 12/31/95 |
| 0.6099 | 12/31/94 |
| 0.9103 | 12/31/93 |
| 0.0550 | 12/31/92 |

**Fund performance** □

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**One Three Year One Three Five Since**

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|                                    | month      | months      | to date    | year        | years         | years        | launch#      |
|------------------------------------|------------|-------------|------------|-------------|---------------|--------------|--------------|
| <b>The China Fund, Inc.</b>        | <b>3.7</b> | <b>19.9</b> | <b>3.7</b> | <b>26.2</b> | <b>20.9**</b> | <b>0.4**</b> | <b>3.3**</b> |
| MSCI Golden Dragon                 | -0.5       | 23.5        | -0.5       | -21.6       | 1.1           | -6.5         | -            |
| Hang Seng Chinese Enterprise Index | 8.9        | 2.6         | 8.9        | 20.5        | 11.1          | -14.7        | -            |

Source: \* State Street Corporation / MC Inc. # The Fund was launched on July 10, 1992. \*\*Annualized return  
Market price is used as reinvest NAV for performance calculations

**Performance in perspective**

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**The portfolio - in full****at 31 January  
2002**

| <b>Sector</b>                                   | <b>Company<br/>(code)</b> | <b>Price</b> | <b>Holding</b> | <b>Value \$</b> | <b>% of<br/>portfolio</b> |
|---|---------------------------|--------------|----------------|-----------------|---------------------------|
| <b>Hong Kong 41.3%</b>                          |                           |              |                |                 |                           |
| TCL International Holdings Ltd                  | 1070.HK                   | HK\$ 1.4     | 39,318,000     | 7,259,266       | 4.6%                      |
| Yanzhou Coal Mining Co.                         | 1171.HK                   | HK\$ 2.9     | 19,000,000     | 7,064,646       | 4.5%                      |
| Zhejiang Expressway Co., Ltd                    | 0576.HK                   | HK\$ 1.9     | 19,814,000     | 4,776,049       | 3.0%                      |
| TPV Technology, Ltd                             | 0903.HK                   | HK\$ 3.4     | 9,764,000      | 4,225,133       | 2.7%                      |
| Shangri-La Asia, Ltd                            | 0069.HK                   | HK\$ 5.8     | 5,000,000      | 3,750,289       | 2.4%                      |
| China Petroleum & Chemical, Corp                | 0386.HK                   | HK\$ 1.2     | 22,700,000     | 3,405,262       | 2.2%                      |
| Brilliance China Automotive Holdings, Ltd       | 1114.HK                   | HK\$ 1.4     | 19,300,000     | 3,365,387       | 2.1%                      |
| Fountain Set (Holdings) Ltd                     | 0420.HK                   | HK\$ 1.5     | 15,250,000     | 2,952,471       | 1.9%                      |
| Asia Satellite Telecommunications Holdings, Ltd | 1135.HK                   | HK\$ 13.6    | 1,693,000      | 2,941,271       | 1.9%                      |
| Huaneng Power International, Inc.               | 0902.HK                   | HK\$ 5.3     | 4,418,000      | 3,030,528       | 1.9%                      |
| China Rare Earth Holdings, Ltd                  | 0769.HK                   | HK\$ 1.9     | 11,797,000     | 2,828,473       | 1.8%                      |
| Beijing Capital International Airport Co., Ltd  | 0697.HK                   | HK\$ 1.9     | 10,384,000     | 2,569,572       | 1.6%                      |
| Chaoda Modern Agriculture                       | 0682.HK                   | HK\$ 2.2     | 8,500,000      | 2,397,620       | 1.5%                      |
| Global Bio-chem Technology Group Co., Ltd       | 0809.HK                   | HK\$ 2.5     | 7,000,000      | 2,198,887       | 1.4%                      |
| China Overseas Land & Investment, Ltd           | 0688.HK                   | HK\$ 1.0     | 16,500,000     | 2,073,237       | 1.3%                      |
| LifeTec Group, Ltd                              | 1180.HK                   | HK\$ 0.2     | 65,346,000     | 1,792,964       | 1.1%                      |
| Wah Sang Gas                                    | 8035.HK                   | HK\$ 0.8     | 16,998,000     | 1,634,549       | 1.1%                      |
| China Travel                                    | 308.HK                    | HK\$ 1.7     | 7,218,000      | 1,610,293       | 1.0%                      |
| Global Tech (Holdings) Ltd                      | 0069.HK                   | HK\$ 0.4     | 26,000,000     | 1,266,764       | 0.8%                      |
| Chen Hsong Holding, Ltd                         | 0057.HK                   | HK\$ 1.4     | 6,630,000      | 1,207,093       | 0.8%                      |
| Arcontech, Corp                                 | 8097.HK                   | HK\$ 0.9     | 9,000,000      | 1,038,541       | 0.7%                      |
| Sunway International Holdings                   | 0058.HK                   | HK\$ 0.4     | 20,000,000     | 987,255         | 0.6%                      |
| Automated Systems Holdings, Ltd                 | 0771.HK                   | HK\$ 2.1     | 1,752,000      | 460,497         | 0.3%                      |
| Jackin International                            | 0630.HK                   | HK\$ 0.3     | 5,000,000      | 205,144         | 0.1%                      |
| <b>Taiwan 36.4%</b>                             |                           |              |                |                 |                           |
| Taipei Bank                                     | 2830.TW                   | NT\$ 28.0    | 12,115,400     | 9,708,964       | 6.2%                      |
| Chunghwa Telecom Co., Ltd                       | 2412.TW                   | NT\$ 50.5    | 4,908,000      | 7,093,703       | 4.5%                      |
| Phoenixtec Power Co., Ltd                       | 2411.TW                   | NT\$ 29.0    | 7,595,000      | 6,303,806       | 4.0%                      |
| Ho Tung Chemical, Corp                          | 1714.TW                   | NT\$ 20.1    | 7,732,950      | 4,448,549       | 2.8%                      |
| Pacific Construction Co., Ltd                   | 2506.TW                   | NT\$ 4.1     | 32,841,000     | 3,872,493       | 2.5%                      |
| Polaris Securities Co., Ltd                     | 6011.TWO                  | NT\$ 16.2    | 8,042,000      | 3,728,689       | 2.3%                      |
| Synnex Technologies International, Corp         | 2347.TW                   | NT\$ 48.1    | 2,484,000      | 3,419,588       | 2.2%                      |
| Choice Lithograph, Inc                          | 9929.TW                   | NT\$ 18.5    | 6,273,000      | 3,321,422       | 2.1%                      |
| China Synthetic Rubber, Corp                    | 2104.TW                   | NT\$ 11.7    | 9,919,440      | 3,307,426       | 2.1%                      |
| Bank Sinopac                                    | 2839.TW                   | NT\$ 15.0    | 7,000,000      | 2,995,134       | 1.9%                      |
| Advantech Co., Ltd                              | 2395.TW                   | NT\$ 103.5   | 959,100        | 2,841,066       | 1.8%                      |
| Lian Hwa Foods                                  | 1231.TW                   | NT\$ 15.7    | 4,059,000      | 2,091,686       | 1.3%                      |
| Tong Yang                                       | 1319.TW                   | NT\$ 14.4    | 3,519,000      | 1,450,303       | 0.9%                      |
| Ability Enterprise Corp                         | 2374.TW                   | NT\$ 29.4    | 1,700,000      | 1,430,452       | 0.9%                      |
| Inventec  | 2356.TW                   | NT\$ 31.7    | 1,526,000      | 1,384,493       | 0.9%                      |

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**B shares 5.3%**

|                                    |           |       |     |           |           |      |
|------------------------------------|-----------|-------|-----|-----------|-----------|------|
| Shanghai Friendship Group Co., Inc | 900923.SS | US \$ | 1.0 | 3,530,000 | 3,611,190 | 2.3% |
| Luthai Textile Co., Ltd            | 200726.SZ | HK\$  | 8.3 | 1,999,869 | 2,120,537 | 1.3% |
| Shanghai Matsuoka, Co              | 900955.SS | US \$ | 1.7 | 981,850   | 1,658,345 | 1.0% |
| Weifu High Technology              | 200581.SZ | HK\$  | 6.2 | 1,178,550 | 941,401   | 0.7% |

**New York 3.5%**

|                   |         |       |     |           |           |      |
|-------------------|---------|-------|-----|-----------|-----------|------|
| Chinadotcom, Corp | China.O | US \$ | 3.2 | 1,700,000 | 5,559,000 | 3.5% |
|-------------------|---------|-------|-----|-----------|-----------|------|

**Direct 4.3%**

|  |  |  |  |           |           |      |
|--|--|--|--|-----------|-----------|------|
| A-S China Plumbing Products, Ltd             |  |  |  | 450       | 4,178,250 | 2.6% |
| Moulin International Holdings, Ltd (2004 CB) |  |  |  | 2,000,000 | 2,002,750 | 1.3% |
| New World Sun City, Ltd                      |  |  |  | 83        | 608,787   | 0.4% |

**Singapore 2.7%**

|                          |         |       |     |           |           |      |
|--------------------------|---------|-------|-----|-----------|-----------|------|
| Want Want Holdings, Ltd  | WANT.SI | US \$ | 1.9 | 1,900,000 | 3,610,000 | 2.3% |
| Asia Dekor Holdings, Ltd | ADEK.SI | US \$ | 0.1 | 7,374,000 | 737,400   | 0.4% |

**Cash 6.5%**

## Objective

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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 at least 50% of their assets in China; and (iii) companies organized in China. Under the new 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

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### The China Fund, Inc.

c/o State Street Bank and Trust Company  
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Boston, MA 02110  
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<http://www.chinafundinc.com>

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