

**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**

**April 18, 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)

**1(888) 246-2255**  
(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 Investor Presentation by the Fund’s Direct 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: April 19, 2002

By: /s/ Ann M. Casey

Name: Ann M. Casey

Title: Secretary

# THE CHINA FUND, INC.



SSGA  
SEAFARER SECURITIES GROUP, INC.

GLOBAL ALLIANCE

THE CHINA FUND, INC.

Incorporated in the Cayman Islands with limited liability

## AGENDA

- 1. Overview of Private Equity in China**
- 2. The Private Equity Strategy of The China Fund Inc.**
- 3. What we have done: Analysis of Deal Flow**
- 4. Review of the Private Equity Portfolio**
- 5. New Investments**
- 6. Representative Potential Projects**

## **APPENDIX**

- Examples of Successful Private Equity Investments in China
- Funds managed by ADCM
- The China Fund team



1. Overview of Private Equity in China
2. The Private Equity Strategy of The China Fund Inc.
3. What we have done: Analysis of Deal Flow
4. Review of the Private Equity Portfolio
5. New Investments
6. Representative Potential Projects

## APPENDIX

Examples of Successful Private Equity Investments in China

Funds managed by ADCM

The China Fund team

AGENDA

## **1.      *Overview of Private Equity in China***



## MARKET PERCEPTION (1)

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### Market perception -

*"Most of the private equity investments by foreign investment funds in China are loss making."*

**Nevertheless, we believe it is only due to timing and cyclical issues:**

- ◆ **Prior to mid 90's, the Chinese economy and corporate sector were not mature enough to generate profitable deals.**
  - *Investors came in the market too early with excessive expectations and were disappointed by reality*
- ◆ **Investments made in the bullish sentiment when stock markets and valuation were at their highs.**
  - *Valuation subsequently came down and triggered losses*

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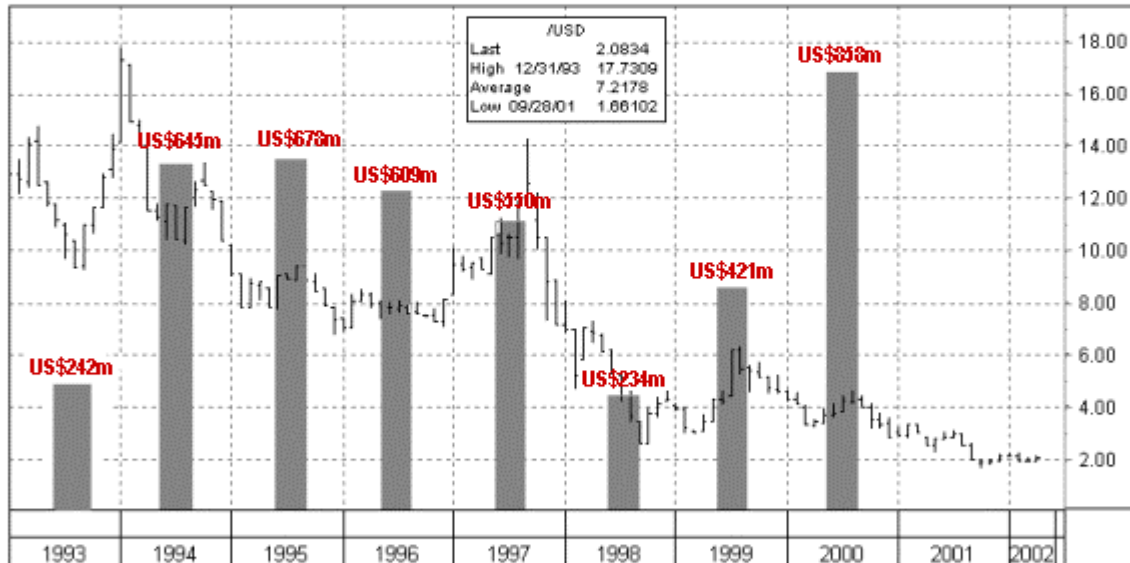
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## MARKET PERCEPTION (2)

### MSCI China Index & Private Equity Investment in China



# Jump in investment in 2000 was largely due to the global Internet boom

Source: Bloomberg, Asian Venture Capital Journal (2001 investment amount is not available yet)

MSCI China Index & Private Equity Investment in China

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Source: Bloomberg, Asian Venture Capital Journal (2001 investment amount is not available yet)

US\$242m

US\$645m

US\$678m

US\$609m

US\$550m

US\$234m

US\$421m

US\$858m

MARKET PERCEPTION (2)





## CURRENT ENVIRONMENT FOR PRIVATE EQUITY IN CHINA

After two decades of reform and development in China, we see improving fundamentals of the private equity market in China:

- ◆ Economy has continued to grow, domestic demand has created a huge market for businesses in China.
- ◆ Companies have become more mature in terms of business models, level of transparency and corporate governance, which are converging with global standards.
- ◆ Valuation has come down to a more reasonable level and stock markets are at cyclical lows:
  - MSCI China Index dropped by 85.2% from the last high in Aug 1997.
  - S&P500 dropped by 26.1% from the last high in Mar 2000.
- ◆ Creation of exit alternatives due to opening and reforming of domestic capital market.

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Creation of exit alternatives due to opening and reforming of domestic capital market.

### CURRENT ENVIRONMENT FOR PRIVATE EQUITY IN CHINA

China private equity has developed to a more mature asset class with reasonable valuation and attractive prospects.

After two decades of reform and development in China, we see improving fundamentals of the private equity market in China:



## **CURRENT PRIVATE EQUITY OPPORTUNITIES IN CHINA**

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**As the Chinese economy continues to grow, many new opportunities for private equity which did not exist before have emerged as a result of the following developments:**

- ◆ **More open economy in response to the WTO membership**
- ◆ **Ascent of private companies**
- ◆ **Reform of state owned enterprises ("SOE") and**
- ◆ **Creation of domestic exit channels**

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As the Chinese economy continues to grow, many new opportunities for private equity which did not exist before have emerged as a result of the following developments:

## **2.      *The Private Equity Strategy of The China Fund, Inc.***



## INVESTMENT STRATEGY

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- ◆ **Seek investment opportunities not accessible in public markets.**
- ◆ **Focus on companies with business models that are not easily duplicable.**
- ◆ **Avoid entrepreneurs with grandiose 'big picture' visions.**
- ◆ **Concentrate on opportunities with viable exit strategies.**

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Focus on companies with business models that are not easily duplicable.  
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## SUPERIOR OPPORTUNITIES IN PRIVATE MARKET

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- ◆ Many of the most attractive investment opportunities are only accessible to the private rather than the public market investors. As in other Asian economies, large, capital intensive, political protected companies come to public market first.
- ◆ Many well run companies which are benefiting from reform and competing with vested interests have still to access the public markets.

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Many well run companies which are benefiting from reform and competing with vested interests have still to access the public markets.

We focus on companies with business models which are not easily found in public markets.



## UNIQUE BUSINESS MODELS

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- ◆ **Any good business idea in China is soon copied by imitators.**
  - e.g. Hong Kong announces Disney Land, Shenzhen starts negotiating with Universal Studios.
- ◆ **As a result, industry sales volume can increase drastically but companies' profitability and returns are squeezed.**
- ◆ **Therefore, real originality and expertise are needed to ensure profitability.**
  - A low cost positioning alone is insufficient.

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As a result, industry sales volume can increase drastically but companies' profitability and returns are squeezed.

Therefore, real originality and expertise are needed to ensure profitability.

A low cost positioning alone is insufficient.

We focus on companies whose competitive advantages are not easily duplicable.



## TRANSPARENCY

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- ◆ China Fund trades at a discount to NAV.
- ◆ Liquidity event within 3 years to allow 'book' NAV to be marked up.
- ◆ Transparency of performance to investors can see value addition within investee companies.

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Liquidity event within 3 years to allow 'book' NAV to be marked up.

Transparency of performance to investors can see value addition within investee companies.

Focus on companies with transparent incremental performance not long run J curve returns from grandiose vision.

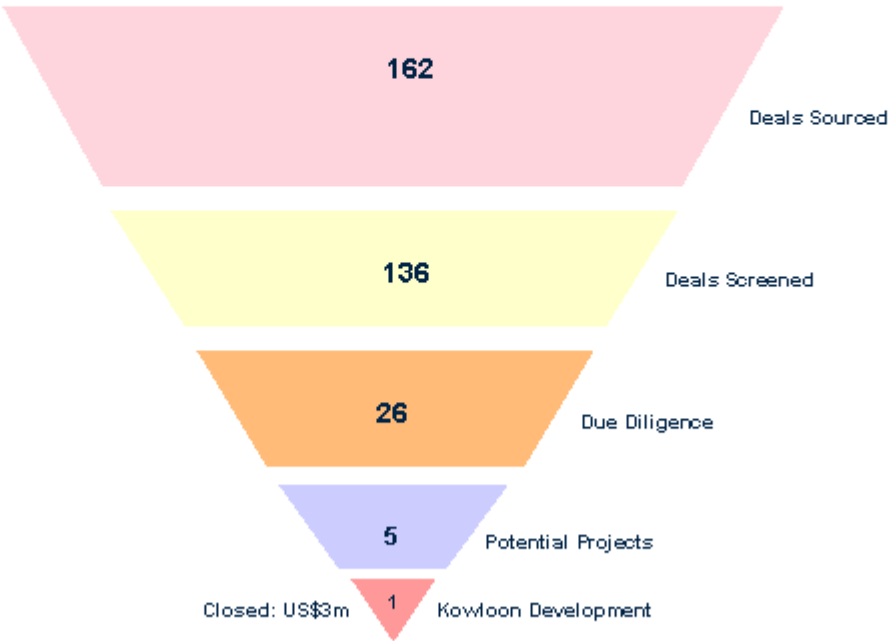
### **3.      *What we have done: Analysis of Deal Flow***





# DEAL FLOW REVIEW

From April 2001 to April 2002



1  
5  
26  
136  
162  
Potential Projects  
Due Diligence  
Deals Screened  
Deals Sourced  
Kowloon Development

Closed: US\$3m

## DEAL FLOW REVIEW

From April 2001 to April 2002



## RESULTS OF OUR DEAL APPRAISAL PROCESS

### (A) Companies Examined:

Sector Business	No. of Deals
Consumer Goods manufacturing	33
Telecom Service & Equipment	24
Other Technology-related	17
Electronics	15
Retailing & Wholesaling	13
Biotech	11
Business services	10
Media Contents & Distribution	10
Software	10
Semiconductor	5
Property	5
Infrastructure	4
Financial services	2
Automobile & Related	2
Transport	1
<b>TOTAL</b>	<b>162</b>

### (B) Deals Rejected:

Reasons for Rejection	No. of Deals
Unreasonable valuation/return	37
Unacceptable start-up risk	24
Invalid business model	21
Corporate Governance	18
Unattractive industry	17
Management Risk	10
Excessive Financial Risk	9
<b>TOTAL</b>	<b>136</b>

- ◆ Since our appointment in April 2001, we have sourced 162 deals and conducted due diligence on 26 deals.
- ◆ Since December 2001, we have sourced 37 deals and conducted due diligence on 10 deals.

## RESULTS OF OUR DEAL APPRAISAL PROCESS

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(TABLE)

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(A) Companies Examined:

(B) Deals Rejected:

**4.      *Review of the Private Equity Portfolio of  
The China Fund, Inc.***



# REVIEW OF THE PORTFOLIO

As of April 15, 2002

Company	Date of Investment	Business Activity	Investment Cost (US\$m)	Valuation (US\$m)	Valuation Surplus/ (Deficit) (US\$m)
<i>Before appointment of ADCM:</i>					
New World Sun City Ltd.	December 1992	Residential, commercial & retail property development project in Dongguan	0.61	0.61	0.00
A-S China Plumbing Products Ltd.	April 1994	Manufacturer & distributor of sanitary ware	4.18	3.20	(0.98)
Moulin International Holdings Ltd.	September 1999	Optical frames manufacturer, distributor & retailer	2.00	2.00	0.00
<i>After appointment of ADCM:</i>					
Kowloon Development Co. Ltd.	March 2002	Development and investment in residential, commercial & retail property in Hong Kong	3.00	3.47	0.47
<i>Portfolio Total:</i>			9.79	9.28	(0.51)

REVIEW OF THE PORTFOLIO

(TABLE)

As of April 15, 2002

## **5.      *New Investments***



## Business Background

- ◆ KDCL has retail and office properties, residential development projects and some car parks in Hong Kong. Principal asset is a retail cum-office building called Pioneer Center. KDCL is listed in Hong Kong.
- ◆ Mr. Or Wai Sheung has acquired KDCL from the original major shareholders at the end of 2001.
- ◆ Mr. Or then made a general offer to the public under the Hong Kong Stock Exchange rules. Subsequently, Mr. Or had over 90% and he sought to sell down his holding to 75% in order to maintain KDCL's listing status.

## Attractiveness

- ◆ Our purchase price was HK\$3.58/share, same as what Mr. Or had paid. This represented 43.53% discount to NAV.
- ◆ Property price in Hong Kong has reached an attractive level, there is more upside than downside.
- ◆ KDCL manages to achieve higher rental yield compared to industry average of 6% - 8%.
- ◆ The company has been under-managed by previous management. Mr. Or's new team has credible plans to generate considerable value in the near term (e.g. there is plan to build KDCL into a more prominent property player in Hong Kong by injecting Mr. Or's property assets and making acquisitions).
- ◆ As KDCL becomes more active in the property market, the share price can better reflect its underlying asset value and thus offer upside to our investment.

## Investment Made

- ◆ Total investment of US\$3m for around 1.34%

## Status

- ◆ Closed on March 5, 2002.

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## Attractiveness

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Status

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KOWLOON DEVELOPMENT COMPANY LIMITED



## **6.     *Representative Potential Projects***



## REPRESENTATIVE POTENTIAL PROJECTS

### Baby Products Company

- ◆ Manufacturing, wholesaling and retailing of baby and children products (strollers, bicycles, walkers, clothing, etc.) in China, also export to the U.S. and Europe in the form of ODM.
- ◆ The 'One Child' policy provides impetus for a large and growing market for baby products.
- ◆ Largest market share of strollers in China
- ◆ Largest distribution network in China; over 400 retail shops and over 10,000 point of sale outlets.
- ◆ Most recognized child brand in China.
- ◆ Aggressive plan to develop more retail shops in China to tap into the huge consumption on child products.

### Leasing Company

- ◆ Based in Hong Kong, the company provides leases to companies in Greater China, Asia, Europe and the U.S.
- ◆ Provides operating leases of technology equipment and ancillary financing solutions to corporate users.
- ◆ Experienced management team.
- ◆ Proven, profitable business model.
- ◆ Management has extensive connections with vendors (e.g. Nokia), banks (Citibank) and corporate users (e.g. Motorola).
- ◆ The company has originated over US\$100m of leases as of the end of 2001, US\$40m more than in September 2001. This proved the company's capability to grow fast.

### Water Treatment Company

- ◆ Development and operation of medium sized water treatment and sewage treatment plants in China.
- ◆ Chinese government recognizes importance of water conservation. Tariffs are allowed to rise.
- ◆ Water distribution network is being opened to foreign companies. More business opportunities are created.
- ◆ The company has a strong market position in its niche: medium sized water projects.
- ◆ Reputable shareholders including international infrastructure investor.
- ◆ Experienced management team.

### Office Furniture Company

- ◆ A major supplier of office furniture to Hong Kong and China.
- ◆ Office furniture demand in China is rising rapidly as local companies upgrade their offices and more foreign companies enter into China.
- ◆ Has an established clientele including large companies like Microsoft, Ericsson, HSBC and AIG.
- ◆ Sales has increased by more than 30 % p.a. over the last 3 years.

### Semiconductor Company

- ◆ A Taiwan company providing wafer level packaging and testing for chip makers. Comparing to traditional packaging technology, the company's technology can save at least 30 % cost for chip makers.
- ◆ Has secured orders from leading chip makers in Taiwan to fill up its full production capacity.
- ◆ Very few competitors in Taiwan.
- ◆ Reputable shareholders including leading semiconductor companies in Japan and Taiwan.

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#### REPRESENTATIVE POTENTIAL PROJECTS

# ***APPENDIX***



## SUCCESSFUL PRIVATE EQUITY INVESTMENTS IN CHINA

### Lerado Group

Lerado is an OEM manufacturer of strollers in China, exporting mainly to the US. AIG invested in Lerado in 1997 and exited after Lerado listed in Hong Kong in 1998, CAGR for AIG was about 23%, not including dividend gains.

### Wuxi Little Swan Group

Little Swan was a Chinese manufacturer of white goods (washing machine, refrigerator, etc.) selling to local market. Foreign investors including Walden and Cathay Fund invested in 1995 at about Rmb 3.75/share (adjusted after bonus shares). Little Swan listed in Shanghai B share market afterwards and the share price went up to almost RMB11 in March 2001, representing a CAGR of about 22%, not including dividend gains. (*China Securities News*).

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Lerado Group

Wuxi Little Swan Group



## FUNDS MANAGED BY ADCM (1)

*This announcement appears as a matter of record only.*

THE ARIRANG RESTRUCTURING FUND

333.3Bn Won (U.S. \$256m)

A securities investment company incorporated in Seoul, Korea, to invest in newly issued debt and equity securities issued by certain Korean companies undergoing financial restructuring.

Advisor

  
SEATTLE STREET GLOBAL ADVISORS

Co-Advisor

  Asian Direct Capital Management

Sib-Advisor

  
Korean Development Investment Management Co., Ltd.

*This announcement appears as a matter of record only.*

**\$40,000,000**

The Korea Venture Fund

A Korean partnership organized to promote the growth of high technology industries and stimulate the development of the private sector venture capital industry in Korea.

Korea Venture Fund Management Company

Manager

 Asian Direct Capital Management  KDIM

 YWC  Vertex  Singapore Technologies

A member of

December 1999

 GLOBAL ALLIANCE

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Korea Venture Fund Management Company

Manager

December 1999

Vertex  
A member of

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Advisor

Korean Development Investment Management Co. Ltd.

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Sub-Advisor

Co-Advisor



## FUNDS MANAGED BY ADCM (2)

### The Thai Recovery Fund LLC

*First Closing of*

**US\$50,000,000**

The Thai Recovery Fund LLC is formed to make equity investments in medium-sized companies and start-up ventures

*Lead Investors*



**KFW**

**SS&A**  
STATE STREET GLOBAL ADVISORS

*Investment Advisor*



Asian Direct  
Capital Management

March 23, 2001

### The China Fund, Inc.

*Direct Investment Portion*

**US\$35,000,000**

The China Fund's investment objective is long term capital appreciation by investing in promising enterprises in China.

*Investment Manager*



Asian Direct  
Capital Management



Asian Direct  
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Investment Manager

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March 23, 2001

The Thai Recovery Fund LLC

Investment Advisor





## THE CHINA FUND TEAM (1)

Raymond Hood  
Managing Director



- ◆ 13 years investment experience in Asia
- ◆ Investor and investment banker
- ◆ Lived in Tokyo, Singapore and Hong Kong
- ◆ MBA from London Business School
- ◆ Worked with James Capel, IFINT and Rothschild
- ◆ Experience includes:
  - IFINT's \$25 million investment in GUOCO
  - Fountain Set - Thwarted a hostile takeover resulting in a significant increase in the investment's value
  - Managed a \$30 million Asian small cap portfolio and a \$12 million Indian listed portfolio
  - Major public floatation in Thailand - Bangkok Land

KOH Kuek Chiang  
Executive Director



- ◆ Over 16 years global investment experience
- ◆ Based in Singapore
- ◆ BE University of Western Australia, PMD Harvard Business School, CFA
- ◆ Former head of private equity, Government of Singapore Investment Corp.
- ◆ Founded UBS Asian Private Equity operation
- ◆ Invested in wide range of industries including:
  - Cisco - first round venture investment
  - Franklin Resources - U.S. fund management company
  - London Sumatra - large Indonesian plantation company
  - Malaysia Steel Mills - steel manufacturer in Malaysia
  - Bintang Kharisma - Indonesian shoe manufacturer
  - Eastern Publishing - a Singapore magazine publisher
  - Bulkem - cement transshipment facility in China

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Former head of private equity, Government of Singapore Investment Corp.  
Founded UBS Asian Private Equity operation  
Invested in wide range of industries including:  
Cisco - first round venture investment  
Franklin Resources - U.S. fund management company  
London Sumatra - large Indonesian plantation company  
Malaysia Steel Mills - steel manufacturer in Malaysia  
Bintang Kharisma - Indonesian shoe manufacturer  
Eastern Publishing - a Singapore magazine publisher  
Bulkem - cement transshipment facility in China

## THE CHINA FUND TEAM (1)

Raymond Hood  
Managing Director

KOH Kuek Chiang  
Executive Director



## THE CHINA FUND TEAM (2)



Thomas Miu  
Associate Director

- ◆ Qualified Accountant
  - Fellow of Association of Chartered Certified Accountants Associate of the Hong Kong Society of Accountants
  - Certified Public Accountant in Hong Kong
- ◆ MBA from Imperial College, London
- ◆ Passed Accounting Paper (1996) of Chinese Institute of Certified Public Accountants
- ◆ Worked with KPMG and Rothschild
- ◆ Experience includes:
  - Managed teams of 4-8 people for audit and special assignments specialized in financial services and enterprises with substantial PRC interests:
    - China Everbright Group
    - Panasonic Shun Hing (Shenzhen) Co. Ltd.
    - HSBC Life Group
    - Hang Seng Insurance Ltd.
    - Leighton Contractors Asia
  - Analyzed companies' financials and reviewed operational effectiveness
  - Performed due diligence reviews for merger and acquisition assignments
  - Evaluated HK and PRC tax implications of companies activities and advised on the resulting financial and taxation impact
  - Reporting accountant for enterprise seeking floatation in Exchanges
    - Foshan Ceramics Group - H-Share
    - Baoheng Properties Group, BaoAn, Guangdong - A-Share
    - Henderson China Holdings Ltd. - Stock Exchange of Hong Kong



Kent Tsang  
Senior Investment Manager

- ◆ 7 years experience in listed and private equity investments in China and Hong Kong.
- ◆ A holder of Chartered Financial Analyst (CFA).
- ◆ Previously an investment manager with AIG's direct investment department focusing on China investments.
- ◆ Also worked at the asset management department of the United Overseas Bank group of Singapore for listed equity investments in Hong Kong and China.
- ◆ Experience includes:
  - Origination, structuring, due diligence and execution of private equity investments in China and Hong Kong.
  - Reviewed over 200 investment opportunities and completed investments amounted to US\$110m.
  - US\$20m investment in the Friendship group, the second largest (based on sales in 2000) retail and wholesale group in China.
  - US\$26m investment in Lotus Supercenter, a hypermarket chain in Shanghai, co-invested with the CP group of Thailand.
  - US\$9m in Goodbaby, the largest manufacturer, marketer and e-commerce service provider in baby and children products in China.

### Qualified Accountant

Fellow of Association of Chartered Certified Accountants Associate of the Hong Kong Society of Accountants

Certified Public Accountant in Hong Kong

MBA from Imperial College, London

Passed Accounting Paper (1996) of Chinese Institute of Certified Public Accountants

Worked with KPMG and Rothschild

Experience includes:

Managed teams of 4-8 people for audit and special assignments specialized in financial services and enterprises with substantial PRC interests:

China Everbright Group

Panasonic Shun Hing (Shenzhen) Co. Ltd.

HSBC Life Group

Hang Seng Insurance Ltd.

Leighton Contractors Asia

Analyzed companies' financials and reviewed operational effectiveness

Performed due diligence reviews for merger and acquisition assignments

Evaluated HK and PRC tax implications of companies activities and advised on the resulting financial and taxation impact

Reporting accountant for enterprise seeking floatation in Exchanges

Foshan Ceramics Group - H-Share

Baoheng Properties Group, BaoAn, Guangdong - A-Share

Henderson China Holdings Ltd. - Stock Exchange of Hong Kong

7 years experience in listed and private equity investments in China and Hong Kong.

A holder of Chartered Financial Analyst (CFA).

Previously an investment manager with AIG's direct investment department focusing on China investments.

Also worked at the asset management department of the United Overseas Bank group of Singapore for listed equity investments in Hong Kong and China.

Experience includes:

Origination, structuring, due diligence and execution of private equity investments in China and Hong Kong.

Reviewed over 200 investment opportunities and completed investments amounted to US\$110m.

US\$20m investment in the Friendship group, the second largest (based on sales in 2000) retail and wholesale group in China.

US\$26m investment in Lotus Supercenter, a hypermarket chain in Shanghai, co-invested with the CP group of Thailand.

US\$9m in Goodbaby, the largest manufacturer, marketer and e-commerce service provider in baby and children products in China.

#### THE CHINA FUND TEAM (2)

Thomas Miu

Associate Director

Kent Tsang

Senior Investment

Manager