



THE CHINA FUND, INC. (CHN)



IN BRIEF

| | |
|---------------------------|------------|
| Net asset value per share | US\$25.89 |
| Market price | US\$31.28 |
| Premium/(discount) | 20.82% |
| Fund size | US\$262.5m |

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

| At January 31, 2005 | US\$ returns | |
|---------------------|------------------|-----------------------|
| | China Fund NAV % | MSCI Golden Dragon* % |
| One month | 6.9 | -3.3 |
| One year | 6.2 | 3.4 |

MANAGER'S COMMENTARY

The New Year has so far been less than happy for Chinese stockmarkets. As the oil price and US dollar both firmed, they all fell sharply at the start of the month. The domestic A share market was particularly weak. It fell to a five-year low as the government failed to address the non-floating share issue, and launched a new IPO process with two unattractive offerings (both power plants). A cut in stamp tax failed to improve sentiment. However, the markets rallied towards the month end after supportive economic statistics. These showed that China continued to grow at a robust 9.5% year-on-year in the fourth quarter of 2004. Meanwhile, the consumer price index (CPI) slowed to 2.4% in December, down from 2.8% in November. The rally in the Hang Seng index was noticeably less pronounced than for the H share and Taiwan indices, as its heavily weighted property and bank stocks remain under pressure from the inexorable rise in US interest rates.

This rise in US rates is increasing the attractiveness of the US dollar. If the Chinese government can weather the forthcoming G8 meeting and news of an increase in the trade surplus resulting from the ending of the textile quota system, then it may be able to hold the line on the RMB. For that reason, we are turning less negative on exporters, including the technology sector. With new equity supply a recurring problem in the Chinese stockmarkets, one positive factor for the next two or three months is that we are in a 'rain shadow' for new IPOs. The need now to use audited 2004 figures in applications to list on the HKSE means that we will be free of large, new IPOs for a while, the next probably being Shenhua Coal and Bank of Communications in late May or June.

INVESTMENT STRATEGY

Your fund is 95.3% invested with holdings in 56 companies, of which four are unlisted. Following the large dividend payment in early January, we rebalanced the portfolio. Our purchases included the newly-listed catering company **Fu Ji**, and additions to existing small positions in **Netcom**, **Guangshen Railway**, **Shineway Pharmaceutical** and sanitary napkin maker Heng An. We sold China Shipping Container, one of the few remaining cyclical stocks in our portfolio, and reduced Taiwanese financial stocks **Cathay**, **Fubon** and **Polaris**.

Chris Ruffle, Martin Currie Inc

DIRECT INVESTMENT MANAGER'S COMMENTARY

CDW Holding Limited ("CDW", formerly Tomoike Industrial (H.K.) Ltd.) had a successful IPO on the Singapore Stock Exchange on January 26, 2005. As part of the offering, the Fund divested a quarter of its holding. Net proceeds returned to the Fund from the vendor sales disposal was approximately US\$4.55 million. This represented approximately two times the original investment made by the Fund in February 2003. Based on the IPO price, the net proceeds on vendor shares sale and the value of the remaining shares represent approximately eight times of the Fund's original cost of investment. Mr Koh Kuek-Chiang remains a non-executive director of CDW.

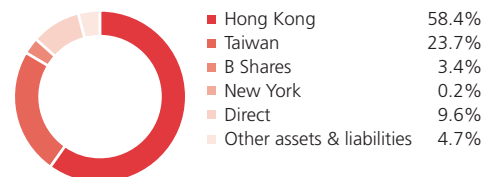
KOH Kuek Chiang, Asian Direct Capital Management

FUND DETAILS

| | |
|---------------------------|---------------------------------|
| Market cap | US\$315.4m |
| Shares outstanding | 10,138,287 |
| Exchange listed | NYSE |
| Listing date | July 10, 1992 |
| Investment adviser | Martin Currie Inc |
| Direct investment manager | Asian Direct Capital Management |

Source: State Street Corporation.

ASSET ALLOCATION



Source: State Street Corporation

SECTOR ALLOCATION

| | The China Fund, Inc | MSCI Golden Dragon |
|----------------------------|---------------------|--------------------|
| Industrials | 21.8% | 12.8% |
| Information technology | 16.8% | 21.0% |
| Consumer discretionary | 14.4% | 6.7% |
| Utilities | 9.3% | 7.7% |
| Materials | 8.7% | 7.6% |
| Consumer staples | 8.0% | 0.6% |
| Healthcare | 5.0% | 0.1% |
| Telecommunications | 5.0% | 7.4% |
| Financials | 4.6% | 30.7% |
| Energy | 1.7% | 5.4% |
| Other assets & liabilities | 4.7% | - |
| Total | 100.0% | 100.0% |

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

PERFORMANCE

(US\$ RETURNS)

| | NAV % | Market price % |
|--------------------------|-------|----------------|
| One month | 6.9 | -4.4 |
| Year to date | 6.9 | -4.4 |
| Three years (annualized) | 25.4 | 40.9 |

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

DIRECT INVESTMENTS (9.6%)

| | | |
|-------------------|------------------------|------|
| CDW Holding Ltd | Information technology | 7.1% |
| Global e Business | Information technology | 1.2% |
| Captive Finance | Financials | 1.1% |
| teco Optronics | Information technology | 0.2% |

15 LARGEST LISTED INVESTMENTS (44.7%)

| | | |
|----------------------------|------------------------|------|
| Chaoda Modern Agriculture | Consumer staples | 5.2% |
| BYD | Industrials | 3.8% |
| China International Marine | Industrials | 3.4% |
| Shenzhen Expressway | Utilities | 3.2% |
| Xiniao Gas | Utilities | 3.1% |
| Weichai Power | Consumer discretionary | 3.0% |
| Anhui Expressway | Utilities | 3.0% |
| Synnex Technologies | Consumer discretionary | 2.8% |
| Comba Telecom Systems | Telecommunications | 2.7% |
| Merry Electronics | Consumer discretionary | 2.6% |
| TCL International | Consumer discretionary | 2.5% |
| Golden Meditech | Healthcare | 2.4% |
| Taiwan Green Point | Information technology | 2.4% |
| TPV Technology | Industrials | 2.3% |
| China Netcom | Telecommunications | 2.3% |

Source: State Street Corporation

FUND PERFORMANCE (BASED ON NET ASSET VALUE)

(US\$ RETURNS)

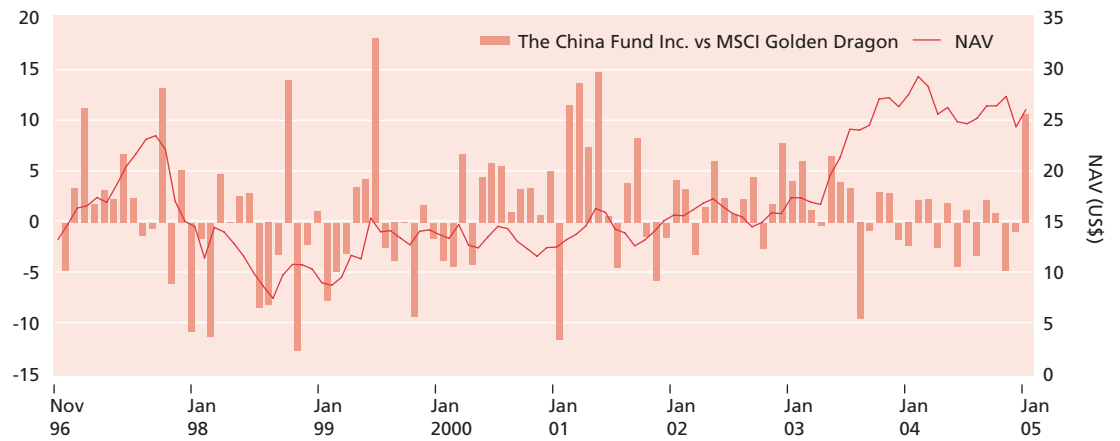
| | One month % | Three months % | Calendar year to date % | One year % | Three years % pa | Five years % pa | Since launch % pa |
|------------------------------|-------------|----------------|-------------------------|------------|------------------|-----------------|-------------------|
| The China Fund, Inc. | 6.9 | 10.6 | 6.9 | 6.2 | 25.4 | 17.8 | 8.6 |
| MSCI Golden Dragon | -3.3 | 8.2 | -3.3 | 3.4 | 9.9 | -3.9 | n/a |
| Hang Seng Chinese Enterprise | -0.8 | 4.6 | -0.8 | 2.4 | 35.1 | 20.9 | n/a |

Past performance is not a guide to future returns.

Source: State Street Corporation. Launch date July 10, 1992. Three year, five year and since launch returns are all annualized.

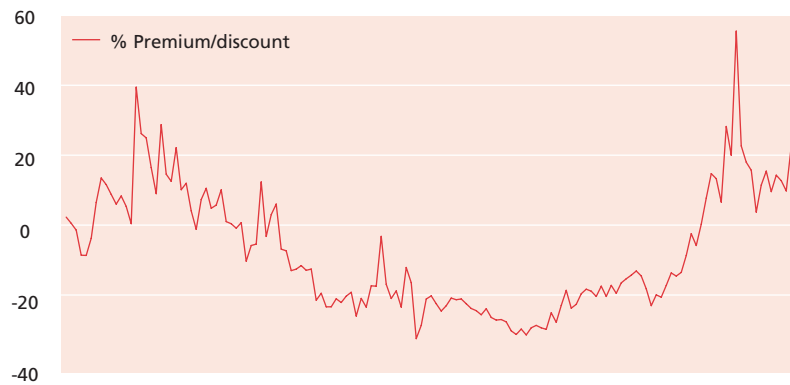
Source for index data: MSCI for the MSCI Golden Dragon and Copyright 2002 Bloomberg LP for the Hang Seng Chinese Enterprise.

PERFORMANCE IN PERSPECTIVE



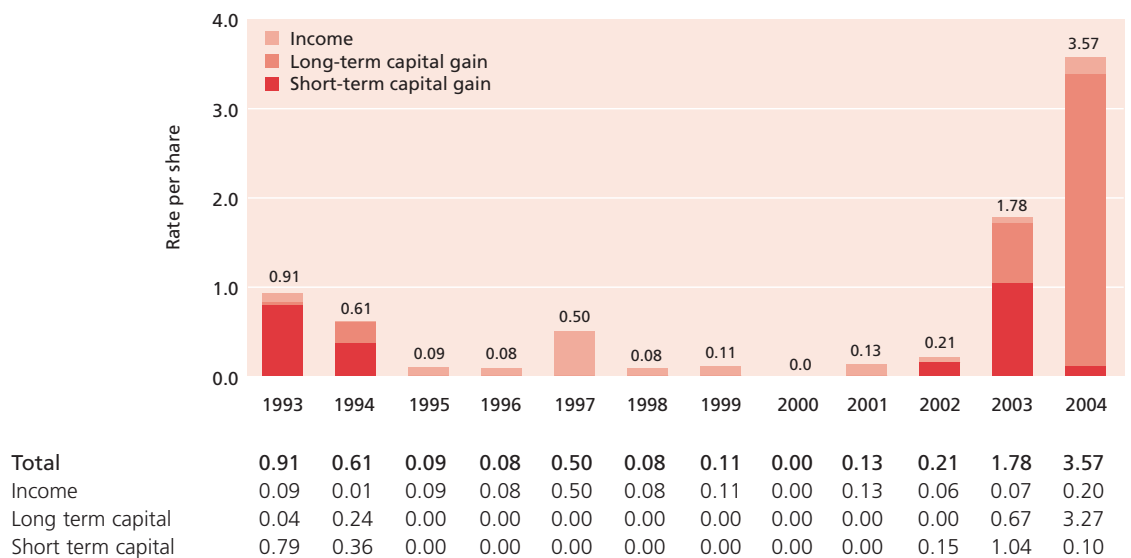
Past performance is not a guide to future returns.
Source: Martin Currie Inc as of January 31, 2005.

THE CHINA FUND INC. PREMIUM/DISCOUNT



Past performance is not a guide to future returns.
Source: Martin Currie Inc as of January 31, 2005.

DIVIDEND HISTORY CHART



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

| Sector | Company (BBG ticker) | Price | Holding | Value \$ | % of portfolio |
|---------------------------------------|----------------------|----------|------------|------------|----------------|
| Hong Kong | | | | | 58.4% |
| Chaoda Modern Agriculture | 682 HK | HK\$3.2 | 34,089,900 | 13,767,163 | 5.2% |
| BYD | 1211 HK | HK\$23.8 | 3,225,000 | 9,819,774 | 3.8% |
| Shenzhen Expressway | 548 HK | HK\$3.1 | 21,494,000 | 8,473,650 | 3.2% |
| Xinao Gas | 2688 HK | HK\$4.5 | 13,976,000 | 8,063,129 | 3.1% |
| Weichai Power | 2338 HK | HK\$24.5 | 2,536,000 | 7,949,436 | 3.0% |
| Anhui Expressway | 995 HK | HK\$4.4 | 13,938,000 | 7,817,839 | 3.0% |
| Comba Telecom Systems | 2342 HK | HK\$3.4 | 16,118,000 | 7,077,500 | 2.7% |
| TCL International | 1070 HK | HK\$1.6 | 32,318,000 | 6,670,810 | 2.5% |
| Golden Meditech | 8180 HK | HK\$1.8 | 27,900,000 | 6,402,733 | 2.4% |
| TPV Technology | 903 HK | HK\$4.8 | 9,968,000 | 6,134,193 | 2.3% |
| China Netcom | 906 HK | HK\$11.3 | 4,253,000 | 6,106,911 | 2.3% |
| Solomon Systech | 2878 HK | HK\$2.1 | 20,698,000 | 5,638,914 | 2.1% |
| Fujian Zijin Mining | 2899 HK | HK\$3.4 | 12,400,000 | 5,444,907 | 2.1% |
| Li Ning | 2331 HK | HK\$3.7 | 11,400,000 | 5,371,189 | 2.1% |
| Yanzhou Coal Mining | 1171 HK | HK\$11.1 | 3,146,000 | 4,456,862 | 1.7% |
| Fountain Set | 420 HK | HK\$4.9 | 6,714,000 | 4,239,316 | 1.6% |
| Sinotrans | 598 HK | HK\$2.6 | 12,835,000 | 4,196,085 | 1.6% |
| China Fire Safety | 8201 HK | HK\$0.6 | 50,380,000 | 4,069,180 | 1.6% |
| China Travel | 308 HK | HK\$2.5 | 10,000,000 | 3,173,097 | 1.2% |
| Weiqiao Textile | 2698 HK | HK\$11.9 | 1,854,500 | 2,817,432 | 1.1% |
| Natural Beauty Bio-Technology | 157 HK | HK\$0.6 | 32,780,000 | 2,437,503 | 0.9% |
| Ocean Grand Chemicals | 2882 HK | HK\$1.1 | 17,379,000 | 2,384,057 | 0.9% |
| Asia Aluminium | 930 HK | HK\$0.8 | 23,250,000 | 2,354,823 | 0.9% |
| Hengan International | 1044 HK | HK\$4.8 | 3,600,000 | 2,215,399 | 0.9% |
| Beiren Printing Machinery | 187 HK | HK\$2.4 | 7,000,000 | 2,176,296 | 0.8% |
| China Shineway Pharmaceutical | 2877 HK | HK\$4.4 | 3,576,000 | 1,994,320 | 0.8% |
| China Rare Earth | 769 HK | HK\$1.0 | 15,254,000 | 1,877,427 | 0.7% |
| Nanjing Dahe Outdoor Media | 8243 HK | HK\$0.4 | 37,500,000 | 1,826,935 | 0.7% |
| Singamas Container | 716 HK | HK\$4.8 | 3,000,000 | 1,826,935 | 0.7% |
| Sino Golf | 361 HK | HK\$1.2 | 11,735,000 | 1,820,441 | 0.7% |
| Guangshen Railway | 525 HK | HK\$3.2 | 4,042,000 | 1,619,401 | 0.6% |
| Asia Zirconium | 395 HK | HK\$0.9 | 13,196,000 | 1,590,297 | 0.6% |
| FU JI Food & Catering | 1175 HK | HK\$7.2 | 1,160,000 | 1,070,776 | 0.4% |
| Arcontech | 8097 HK | HK\$0.2 | 18,386,000 | 407,795 | 0.2% |
| Taiwan | | | | | 23.7% |
| Synnex Technologies | 2347 TT | NT\$45.0 | 5,165,604 | 7,321,329 | 2.8% |
| Merry Electronics | 2439 TT | NT\$72.0 | 3,012,016 | 6,830,398 | 2.6% |
| Taiwan Green Point | 3007 TT | NT\$92.5 | 2,155,749 | 6,280,529 | 2.4% |
| EVA Airways | 2618 TT | NT\$15.2 | 11,300,000 | 5,409,764 | 2.0% |
| Cheng Shin Rubber | 2105 TT | NT\$38.6 | 3,805,974 | 4,627,105 | 1.8% |
| Cathay Financial | 2882 TT | NT\$62.5 | 2,331,000 | 4,588,583 | 1.7% |
| Fubon Financial | 2881 TT | NT\$31.8 | 4,453,952 | 4,460,966 | 1.7% |
| Tripod Technology | 3044 TT | NT\$43.2 | 2,778,413 | 3,780,392 | 1.4% |
| ET Internet Technology | 2614 TT | NT\$15.6 | 7,136,000 | 3,506,192 | 1.3% |
| China Metal Products | 1532 TT | NT\$33.6 | 2,974,714 | 3,148,044 | 1.2% |
| Data Systems Consulting | 2447 TT | NT\$19.1 | 4,237,987 | 2,549,466 | 1.0% |
| Taiwan FamilyMart | 5903 TT | NT\$51.5 | 1,567,231 | 2,542,123 | 1.0% |
| Chicony Electronics | 2385 TT | NT\$27.1 | 2,404,152 | 2,052,048 | 0.8% |
| Soft-World International | 5478 TT | NT\$60.5 | 933,457 | 1,778,713 | 0.7% |
| Yieh United Steel | 9957 TT | NT\$15.5 | 3,500,000 | 1,708,661 | 0.7% |
| Wintek | 2384 TT | NT\$33.5 | 1,421,104 | 1,499,432 | 0.6% |
| B shares | | | | | 3.4% |
| China International Marine | 200039 CH | HK\$17.9 | 3,908,395 | 8,969,323 | 3.4% |
| New York | | | | | 0.2% |
| Chindex International | CHDX US | US\$7.9 | 69,987 | 552,897 | 0.2% |
| Direct | | | | | 9.6% |
| CDW Holding Ltd | | | 60,000,000 | 18,643,499 | 7.1% |
| Global e Business | | | 40,000 | 3,034,049 | 1.2% |
| Captive Finance | | | 2,000,000 | 3,045,000 | 1.1% |
| teco Optronics | | | 1,861,710 | 592,715 | 0.2% |
| Other assets & liabilities | | | | | 4.7% |

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

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