

# THE CHINA FUND, INC.

## ANNUAL REPORT

October 31, 2010

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**THE CHINA FUND, INC.**  
**KEY HIGHLIGHTS (Unaudited)**

<b>FUND DATA</b>	
NYSE Stock Symbol	CHN
Listing Date	July 10, 1992
Shares Outstanding	22,781,762
Total Net Assets (10/31/10)	US\$785.0 million
Net Asset Value Per Share (10/31/10)	\$34.46
Market Price Per Share (10/31/10)	\$33.45

<b>TOTAL RETURN<sup>(1)</sup></b>		
<b>Performance as of 10/31/10:</b>	<b>Net Asset Value</b>	<b>Market Price</b>
1-Year	27.67%	33.70%
3-Year Cumulative	5.92%	20.39%
3-Year Annualized	1.94%	6.38%
5-Year Cumulative	243.13%	215.44%
5-Year Annualized	27.97%	25.83%
10-Year Cumulative	676.21%	942.53%
10-Year Annualized	22.74%	26.42%

<b>DIVIDEND HISTORY</b>		
<b>Record Date</b>	<b>Income</b>	<b>Capital Gains</b>
12/24/09	\$0.2557	—
12/24/08	\$0.4813	\$5.3361
12/21/07	\$0.2800	\$11.8400
12/21/06	\$0.2996	\$3.7121
12/21/05	\$0.2172	\$2.2947
12/22/04	\$0.1963	\$3.3738
12/31/03	\$0.0700	\$1.7100
12/26/02	\$0.0640	\$0.1504
12/31/01	\$0.1321	—
12/31/00	—	—
12/31/99	\$0.1110	—
12/31/98	\$0.0780	—
12/31/97	—	\$0.5003
12/31/96	\$0.0834	—
12/29/95	\$0.0910	—
12/30/94	\$0.0093	\$0.6006
12/31/93	\$0.0853	\$0.8250
12/31/92	\$0.0434	\$0.0116

(1) Total investment returns reflect changes in net asset value per share or market price, as the case may be, during each period and assumes that dividends and capital gains distributions, if any, were reinvested in accordance with the dividend reinvestment plan. The net asset value per share percentages are not an indication of the performance of a shareholder's investment in the Fund, which is based on market price. Total investment returns do not reflect the deduction of taxes that a stockholder would pay on Fund distributions or the sale of Fund shares. Total investment returns are historical and do not guarantee future results.

**THE CHINA FUND, INC.**  
**ASSET ALLOCATION AS OF October 31, 2010 (Unaudited)**

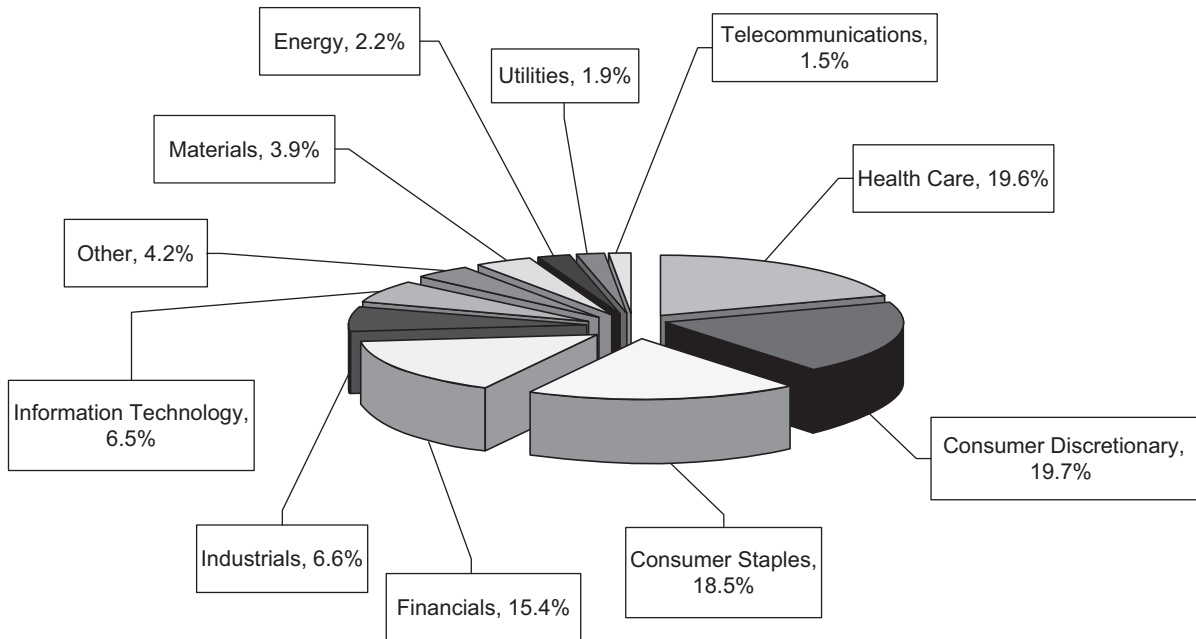
<b>Ten Largest Listed Equity Investments *</b>	
1. China Medical System Holdings, Ltd.	5.89%
2. Huiyin Household Appliances Holdings Co., Ltd.	5.67%
3. Wumart Stores, Inc.	3.59%
4. Hsu Fu Chi International, Ltd.	3.22%
5. Far Eastern Department Stores, Ltd.	3.09%
6. Shandong Weigao Group Medical Polymer Co., Ltd.	3.06%
7. Ping An Insurance (Group) Company of China, Ltd. Access Product	3.05%
8. Sinopharm Medicine Holding Co., Ltd.	3.02%
9. Boshiwa International Holding, Ltd.	2.91%
10. China Fishery Group, Ltd.	2.75%

<b>Direct Investments *</b>	
1. China Bright	1.91%
2. Zong Su Foods	1.91%
3. HAND Enterprise Solutions, Co., Ltd. Common Stock	1.81%
4. Qingdao Bright Moon Seaweed Group Co., Ltd.	1.18%
5. Ugent Holdings, Ltd.	0.00%
6. China Silicon Corp., Series A Preferred	0.00%
7. China Silicon Corp., Common Stock	0.00%
8. China Silicon Corp., Warrants	0.00%
9. HAND Enterprise Solutions, Pte, Ltd. Preferred	0.00%

\* Percentages based on net assets at October 31, 2010.

## INDUSTRY ALLOCATION (Unaudited)

### Industry Allocation (as a percentage of net assets)



Fund holdings are subject to change and percentages shown above are based on total net assets as of October 31, 2010. A complete list of holdings as of October 31, 2010 is contained in the Schedule of Investments included in this report. The most current available data regarding portfolio holdings can be found on our website, [www.chinafundinc.com](http://www.chinafundinc.com). You may also obtain holdings by calling 1-888-246-2255.

# **THE CHINA FUND, INC.**

## **CHAIRMAN'S STATEMENT (Unaudited)**

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**The China Fund Inc.**

**Chairman's statement**

**Twelve months to October 31, 2010**

I am pleased to report a strong year for Chinese markets — and a stronger period still for your fund. With a return of over 30%, the fund outstripped the 16% return on the MSCI Golden Dragon index by a considerable margin. Gratifyingly, your fund's outperformance stemmed from the long-term themes on which your manager has placed heavy emphasis: China's burgeoning domestic consumption, its far-reaching healthcare reforms and its increasingly amicable relationship with Taiwan.

In the direct-investment portfolio, your manager completed two new investments in the autumn. These were in China Bright Group, a medical-device-maker and distributor spun out of Hong Kong-listed Golden Meditech, and Zong Su Foods, which produces both traditional Chinese and Western-style hams. During the past year, Chinese markets were distinctly out of favor for several months (although your fund performed very well over that period). Investors worried first that China's growth was too fast and then that it was slowing too much. In fact, after the astonishing rates achieved by dint of Beijing's vast stimulus packages, all the signs are that growth has now reached an appropriate — and sustainable — level.

As the panic has abated, foreign capital has started to return to Greater China, with huge inflows during the autumn. For investors with the foresight to have remained invested in the region's best companies, this is a heartening development. I therefore look forward with confidence to reporting another period of strong performance in my next statement.

In conclusion, I draw your attention to Note I on page 29 of these accounts. Under the Indemnity Agreement referred to in the Note and additional agreements between the Fund and the Direct Investment Manager, The China Fund will be compensated for any loss or expense associated with its investment in Ugent Holdings, Ltd. The Board considers this a satisfactory resolution of the issues described on page 29. The Board and the Direct Investment Manager are working together to improve policies and procedures for direct investments made by the Fund in the future.

Yours sincerely,

James Lightburn  
Chairman

# **THE CHINA FUND, INC.**

## **INVESTMENT MANAGER'S STATEMENT (Unaudited)**

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### **REVIEW OF LISTED AND DIRECT INVESTMENTS**

#### **Review**

Despite weakness in the first half of 2010, Chinese markets were strong over the 12 months to 31 October. The MSCI Golden Dragon index returned 16.1%. With a gain of 31.5%, the fund did significantly better.

Although Chinese indices ended 2009 strongly, they were notably weak in the first half of 2010, as investors fretted about government measures to cool the property market. Later, concerns shifted to slowing growth and the possibility of a 'hard landing'. But after the summer, it became increasingly clear that China's growth was simply moderating from its stimulus-induced highs to a more sustainable level. Huge inflows of foreign institutional capital helped to buoy the market in the autumn.

In Taiwan, the key development was July's signing of the Economic Cooperation Framework Agreement between the island and mainland China. The free-trade agreement was approved by the Taiwan's Legislative Yuan in August. Although tariff reductions do not come into effect until January, the increasing amount of cross-strait M&A rumours show that companies are not waiting for the starting gun. Another benefit that should not be overlooked is that it will allow President Ma to sign free-trade agreements with other trading partners; this was previously obstructed by Beijing. Also, we expect negotiations on round two, which will broaden the agreement, to start within six months of the first stage being implemented. In the meantime, Chinese tourists are arriving in ever-greater numbers, boosting the island's already surging economy.

The fund's substantial outperformance owed a great deal to its heavy emphasis on domestic consumption. Food-related holdings delivered some of the leading performances, with confectioner Hsu Fu Chi, China Fishery and Zhangzidao Fishery all to the fore. Liquor distillers Zhejiang Guyuelongshan and Wuliangye Yibin also delivered good returns. And as retail sales continued to grow robustly, we enjoyed strong showings from Intime Department Store, Wumart and cosmetics chain Natural Beauty on the mainland, and from Familymart and Far Eastern Department Store in Taiwan. Our cornerstone investment in childrenswear Boshiwa was also a success.

The portfolio's overweight position in healthcare produced some standouts too. The pick of these was China Shineway Pharmaceutical, with Shandong Weigao, Sinopharm and WuXi PharmaTech also performing well. A number of healthcare stocks were among the largest detractors from returns, however, after the authorities tightened regulations on drug pricing. But as the government presses ahead with its far-reaching healthcare reforms, the prospects for the sector over the next few years remain bright.

#### **Outlook**

There were no surprises from the central committee's October deliberations on the next five-year plan — which itself was not a surprise. The succession of Xi Jinping to the top job from 2012 was confirmed. The Shanghai World Expo closed after breaking all records (72 million attendees). The Asian Games, staged with a budget larger than that for the London Olympics, took place in Guangzhou in November. But amid all the triumphalism, a rather sour, defensive tone

**THE CHINA FUND, INC.**  
**INVESTMENT MANAGER'S STATEMENT (continued) (Unaudited)**

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**REVIEW OF LISTED AND DIRECT INVESTMENTS**

is developing in Chinese foreign policy (as reflected in the reaction to Liu Xiaobo winning a Nobel prize). This is one potential threat to markets.

Another slightly worrying sign is the extremely busy IPO market, with untested companies rapturously received. But there is probably still enough pessimism/scepticism towards China investment to limit risks in the near term. We are relatively sanguine about Taiwan's mayoral elections on 27 November; once they are out of the way, we expect further progress in the cross-strait rapprochement.



## **THE CHINA FUND, INC.**

### **ABOUT THE PORTFOLIO MANAGERS (Unaudited)**

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#### **Listed and Direct Investment Managers**

Mr. Chris Ruffle serves as the portfolio manager for the Fund's portfolio of listed and direct securities. Mr. Ruffle joined Martin Currie in 1994. He is a Chinese and Taiwanese equity specialist with over 15 years investment experience in Asia. Fluent in Mandarin, Mr. Ruffle has worked in the Far East since 1983. He worked originally in Beijing and Shanghai and then in Australia for a metal trading company. He then moved to Warburg Securities in 1987 as an analyst in Tokyo, before establishing Warburg's office in Taiwan. Mr. Ruffle also manages The Martin Currie China Hedge Fund and the China "A" Share Fund.

Mr. Shifeng Ke serves as the portfolio manager for the Fund's portfolio of listed and direct securities. Mr. Ke joined Martin Currie's Asia team in 1997 and, until 2002, co-managed the China Heartland Fund, which at that time was the only offshore fund to access China's A-share market. In 2006, Martin Currie, Chris Ruffle and Shifeng established MC China Limited: a joint venture dedicated to running its range of specialist China strategies. He is co-manager of the Fund, Martin Currie's A-share products, Martin Currie's China Hedge Fund and the micro-cap China Development Capital Partnership. Shifeng practiced law before moving to China's ministry of labour and social security in 1990, where he worked to develop an investment policy for pension funds.

**THE CHINA FUND, INC.**  
**SCHEDULE OF INVESTMENTS**  
**October 31, 2010**

<u>Name of Issuer and Title of Issue</u>	<u>Shares</u>	<u>Value (Note A)</u>
<b>COMMON STOCK AND OTHER EQUITY INTERESTS</b>		
<b>HONG KONG</b>		
<b>Consumer Discretionary — (9.7%)</b>		
FU JI Food & Catering Services* <sup>^</sup> #(2) . . . . .	5,462,000	\$ —
Huiyin Household Appliances Holdings Co., Ltd.*#†(2) . . . . .	160,413,750	44,491,832
Intime Department Store Group Co., Ltd.(1) . . . . .	7,926,629	12,168,463
Ports Design, Ltd.(1) . . . . .	4,549,500	11,045,453
Shangri-La Asia, Ltd.(1) . . . . .	3,061,555	6,911,628
Yorkey Optical International Cayman, Ltd.# . . . . .	6,142,926	1,101,515
		<u>75,718,891</u>
<b>Consumer Staples — (3.1%)</b>		
Chaoda Modern Agriculture (Holdings), Ltd.(1) . . . . .	12,619,357	10,272,280
Natural Beauty Bio-Technology, Ltd.# . . . . .	47,710,000	14,155,900
		<u>24,428,180</u>
<b>Energy — (1.0%)</b>		
Fushan International Energy Group, Ltd.(1) . . . . .	12,018,000	8,077,373
<b>Health Care — (2.8%)</b>		
China Shineway Pharmaceutical Group, Ltd.(1) . . . . .	4,567,000	15,553,753
Golden Meditech Co., Ltd.*#(1) . . . . .	35,040,000	6,509,188
		<u>22,062,941</u>
<b>Utilities — (1.9%)</b>		
Enn Energy Holdings, Ltd.(1) . . . . .	5,084,000	15,150,179
<b>TOTAL HONG KONG — (Cost \$80,403,265) . . . . .</b>	<b>18.5%</b>	<b><u>145,437,564</u></b>
<b>HONG KONG — “H” SHARES</b>		
<b>Consumer Discretionary — (2.9%)</b>		
Boshiwa International Holding, Ltd.*# . . . . .	24,932,000	22,867,936
<b>Consumer Staples — (3.6%)</b>		
Wumart Stores, Inc.#(1) . . . . .	12,018,000	28,185,537
<b>Health Care — (12.0%)</b>		
China Medical System Holdings, Ltd.*#† . . . . .	72,353,760	46,202,614
Shandong Weigao Group Medical Polymer Co., Ltd.#(1) . . . . .	9,176,000	24,029,774
Sinopharm Medicine Holding Co., Ltd. . . . .	6,056,800	23,713,855
		<u>93,946,243</u>
<b>Industrials — (0.9%)</b>		
Fook Woo Group Holdings, Ltd.* . . . . .	19,836,000	7,011,403

See notes to financial statements and notes to schedule of investments.

**THE CHINA FUND, INC.**  
**SCHEDULE OF INVESTMENTS (continued)**  
**October 31, 2010**

<u>Name of Issuer and Title of Issue</u>	<u>Shares</u>	<u>Value (Note A)</u>
<b>COMMON STOCK AND OTHER EQUITY INTERESTS (continued)</b>		
<b>HONG KONG — “H” SHARES (continued)</b>		
<b>Materials — (1.4%)</b>		
Zijin Mining Group Co., Ltd.(1) . . . . .	12,050,000	\$ 11,347,760
<b>Telecommunications — (1.5%)</b>		
ZTE Corp.(1) . . . . .	3,212,889	11,936,815
<b>TOTAL HONG KONG — “H” SHARES —</b>		
(Cost \$77,159,751) . . . . .		<u>22.3%</u> 175,295,694
<b>TOTAL HONG KONG (INCLUDING “H” SHARES) —</b>		
(Cost \$157,563,016) . . . . .		<u>40.8%</u> 320,733,258
<b>SINGAPORE</b>		
<b>Consumer Staples — (6.0%)</b>		
China Fishery Group, Ltd.#(1) . . . . .	13,255,000	21,601,120
Hsu Fu Chi International, Ltd.*# . . . . .	9,484,000	25,271,133
		<u>46,872,253</u>
<b>Financials — (0.5%)</b>		
Financial One Corp.*# . . . . .	12,030,000	3,809,461
<b>Information Technology — (0.4%)</b>		
CDW Holding, Ltd.#† . . . . .	51,458,000	3,179,487
<b>TOTAL SINGAPORE — (Cost \$22,750,327) . . . . .</b>		<u>6.9%</u> 53,861,201
<b>TAIWAN</b>		
<b>Consumer Discretionary — (5.7%)</b>		
FamilyMart Co., Ltd.# . . . . .	4,501,652	12,922,137
Far Eastern Department Stores, Ltd. . . . .	19,543,604	24,252,795
Synnex Technology International Corp. . . . .	3,088,006	7,553,243
		<u>44,728,175</u>
<b>Consumer Staples — (2.9%)</b>		
Lien Hwa Industrial Corp. . . . .	13,411,881	9,876,652
Uni-President Enterprises Corp. . . . .	10,023,901	13,028,469
		<u>22,905,121</u>
<b>Financials — (6.4%)</b>		
Cathay Financial Holding Co., Ltd. . . . .	635,700	972,602
Chinatrust Financial Holding Co., Ltd. . . . .	11,376,288	7,095,900
Fubon Financial Holdings Co., Ltd. . . . .	5,195,134	6,362,116
KGI Securities Co., Ltd. . . . .	16,984,780	7,987,226

See notes to financial statements and notes to schedule of investments.

**THE CHINA FUND, INC.**  
**SCHEDULE OF INVESTMENTS (continued)**  
**October 31, 2010**

<u>Name of Issuer and Title of Issue</u>	<u>Shares</u>	<u>Value (Note A)</u>
<b>COMMON STOCK AND OTHER EQUITY INTERESTS (continued)</b>		
<b>TAIWAN (continued)</b>		
<b>Financials (continued)</b>		
Ruentex Development Co., Ltd. . . . .	12,694,000	\$ 21,058,903
Yuanta Financial Holdings Co., Ltd. . . . .	10,520,593	<u>6,613,700</u>
		<u>50,090,447</u>
	<b>Face Amount</b>	
<b>Financials — (1.0%)</b>		
Taiwan Life Insurance Co., Ltd. 4.0% 12/28/14#†@(2) . . . . .	NT\$200,000,000	<u>7,936,254</u>
	<b>Shares</b>	
<b>Information Technology — (1.8%)</b>		
WPG Holdings Co., Ltd. . . . .	7,457,103	<u>13,856,577</u>
<b>Materials — (1.5%)</b>		
China Metal Products Co., Ltd.# . . . . .	11,500,347	<u>11,792,724</u>
<b>TOTAL TAIWAN — (Cost \$82,494,083) . . . . .</b>		<u>19.3%</u> <u>151,309,298</u>
<b>UNITED STATES</b>		
<b>Consumer Discretionary — (0.1%)</b>		
The9, Ltd., ADR*(1) . . . . .	110,304	<u>614,393</u>
<b>Energy — (1.2%)</b>		
Far East Energy Corp.*#† . . . . .	17,529,277	<u>9,730,502</u>
<b>Health Care — (2.9%)</b>		
Mindray Medical International, Ltd., ADR(1) . . . . .	291,700	8,453,466
WuXi PharmaTech Cayman, Inc., ADR*(1) . . . . .	883,490	<u>14,559,915</u>
		<u>23,013,381</u>
<b>Information Technology — (2.5%)</b>		
Hollysys Automation Technologies, Ltd.*(1) . . . . .	808,200	10,215,648
Sina Corp.*(1) . . . . .	162,700	<u>9,160,010</u>
		<u>19,375,658</u>
<b>TOTAL UNITED STATES — (Cost \$43,752,907) . . . . .</b>		<u>6.7%</u> <u>52,733,934</u>
<b>TOTAL COMMON STOCK AND OTHER EQUITY INTERESTS — (Cost \$306,560,333) . . . . .</b>		<u>73.7%</u> <u>578,637,691</u>

See notes to financial statements and notes to schedule of investments.

**THE CHINA FUND, INC.**  
**SCHEDULE OF INVESTMENTS (continued)**  
**October 31, 2010**

<u>Name of Issuer and Title of Issue</u>	<u>Shares</u>	<u>Value (Note A)</u>
<b>EQUITY LINKED SECURITIES</b>		
<b>Consumer Discretionary — (1.3%)</b>		
Shanghai Yuyuan Tourist Mart Co., Ltd. Access Product (expiration 03/26/14) 144A,(4) . . . . .	4,293,036	\$ 9,942,946
<b>Consumer Staples — (1.0%)</b>		
Wuliangye Yibin Co., Ltd. Access Product (expiration 01/20/15) 144A,* (3) . . . . .	1,403,507	7,656,131
<b>Financials — (7.5%)</b>		
Citic Securities Co., Ltd. Access Product (expiration 09/23/13) 144A,(4) . . . . .	2,475,000	5,754,519
Ping An Insurance (Group) Company of China, Ltd. Access Product (expiration 01/17/12) 144A,(3) . . . . .	1,114,259	10,008,753
Ping An Insurance (Group) Company of China, Ltd. Access Product (expiration 04/01/13) 144A,(4) . . . . .	2,661,500	23,906,737
Zhejiang China Commodities City Group Co., Ltd. Access Product (expiration 01/17/12) 144A, *(3) . . . . .	2,771,970	10,746,928
Zhejiang Guyuelongshan, Ltd. Access Product (expiration 10/07/13) 144A,(4) . . . . .	3,658,900	8,359,061
		<u>58,775,998</u>
<b>Industrials — (4.5%)</b>		
China Railway Construction Corp., Ltd. Access Product (expiration 01/17/12) 144A,(3) . . . . .	3,932,600	4,432,040
Shanghai International Airport Co., Ltd. Access Product (expiration 01/20/15) 144A,(3) . . . . .	2,526,700	5,323,757
Shanghai International Airport Co., Ltd. Access Product (expiration 10/26/15) 144A,(4) . . . . .	1,800,000	3,804,640
Shanghai Qiangsheng Holding Co., Ltd. Access Product (expiration 01/17/12) 144A,(3) . . . . .	4,237,252	5,018,029
Shanghai Qiangsheng Holding Co., Ltd. Access Product (expiration 11/13/14) 144A,(4) . . . . .	6,245,400	7,396,209
Suning Appliance Co., Ltd. Access Product (expiration 01/20/15) 144A,* (3) . . . . .	4,311,019	9,829,124
		<u>35,803,799</u>
<b>Materials — (1.0%)</b>		
Tangshan Jidong Cement Co., Ltd. Access Product (expiration 08/11/15) 144A,* (4) . . . . .	1,366,387	4,711,114
Tangshan Jidong Cement Co., Ltd. Access Product (expiration 01/20/15) 144A,* (3) . . . . .	987,700	3,395,712
		<u>8,106,826</u>
<b>TOTAL EQUITY LINKED SECURITIES — (Cost \$89,440,978) . . .</b>	<b>15.3%</b>	<b><u>120,285,700</u></b>

See notes to financial statements and notes to schedule of investments.

**THE CHINA FUND, INC.**  
**SCHEDULE OF INVESTMENTS (continued)**  
**October 31, 2010**

<u>Name of Issuer and Title of Issue</u>	<u>Shares</u>	<u>Value (Note A)</u>
<b>DIRECT INVESTMENTS(5)</b>		
<b>Consumer Staples — (1.9%)</b>		
Zong Su Foods (acquired 09/21/10)*#†(2) . . . . .	2,677	\$15,000,034
		<u>15,000,034</u>
<b>Health Care — (1.9%)</b>		
China Bright (acquired 08/27/10)*#†(2)(6) . . . . .	14,665,617	15,021,769
		<u>15,021,769</u>
<b>Industrials — (1.2%)</b>		
Qingdao Bright Moon Seaweed Group Co., Ltd., (acquired 02/28/08)*#†(2)(6) . . . . .	31,827,172	9,293,534
		<u>9,293,534</u>
<b>Information Technology — (1.8%)</b>		
China Silicon Corp. Common Stock, (acquired 01/08-09/10)*#†(2) . .	2,301,863	—
China Silicon Corp. Warrants (expiration 11/30/10), (acquired 11/30/07)*#†(2) . . . . .	685,450	—
China Silicon Corp., Series A Preferred (acquired 11/30/07)#†(2) . . .	27,418	—
HAND Enterprise Solutions Pte, Ltd. Preferred (acquired 02/01/07)*#†(2) . . . . .	500,000	—
HAND Enterprise Solutions Co., Ltd. Common Stock (acquired 02/11/10)#†(2) . . . . .	8,027,241	14,192,162
		<u>14,192,162</u>
	<b>Face Amount</b>	
<b>Industrials — (0.0%)</b>		
Ugent Holdings, Ltd., 12.0% 04/06/12 (acquired 04/06/09)*#†@(2) . .	HK\$177,000,000	—
<b>TOTAL DIRECT INVESTMENTS — (Cost \$71,111,838) . . . . .</b>		<u>6.8%</u> <u>53,507,499</u>
	<b>Shares</b>	
<b>COLLATERAL FOR SECURITIES ON LOAN— (8.3%)</b>		
State Street Navigator Prime Portfolio . . . . .	64,819,389	64,819,389
<b>TOTAL COLLATERAL FOR SECURITIES ON LOAN — (Cost \$64,819,389) . . . . .</b>		<u>8.3%</u> <u>64,819,389</u>

See notes to financial statements and notes to schedule of investments.

**THE CHINA FUND, INC.**  
**SCHEDULE OF INVESTMENTS (continued)**  
**October 31, 2010**

<u>Name of Issuer and Title of Issue</u>	<u>Shares</u>	<u>Value (Note A)</u>
<b>SHORT TERM INVESTMENTS UNITED STATES</b>		
Repurchase Agreement with State Street Bank and Trust, 0.01%, 11/01/10(7) . . . . .	23,428,000	\$ 23,428,000
<b>TOTAL UNITED STATES</b> — (Cost \$23,428,000) . . . . .		<u>3.0%</u> <u>23,428,000</u>
<b>TOTAL INVESTMENTS</b> — (Cost \$555,360,538) . . . . .		<u>107.1%</u> <u>840,678,279</u>
<b>OTHER ASSETS AND LIABILITIES</b> . . . . .		<u>(7.1)%</u> <u>(55,676,062)</u>
<b>NET ASSETS.</b> . . . . .		<u>100.0%</u> <u>\$785,002,217</u>

Notes to Schedule of Investments

- ^ Security is deemed worthless.
  - \* Denotes non-income producing security.
  - # Illiquid security.
  - † Affiliated issuer (see Note F).
  - @ The bond contains a feature or option to be converted into common stock.
  - (1) A portion or all of the security was held on loan. As of October 31, 2010, the market value of the securities loaned was \$64,499,371.
  - (2) Security valued at fair value in good faith by or at the direction of the Board of Directors.
  - (3) Equity linked securities issued by Citigroup Global Markets Holdings.
  - (4) Equity linked securities issued by Credit Lyonnais (CLSA).
  - (5) Direct investments are generally restricted as to resale and do not have a readily available resale market. On the date of acquisition of each direct investment, there were no market quotations on similar securities, and such investments were therefore valued in good faith by the Board of Directors at fair market value. The securities continue to be valued in good faith by Board of Directors at fair market value as of October 31, 2010.
  - (6) The Fund holds a put option which allows the Fund to sell the investment for a value at least equal to the purchase price under certain circumstances.
  - (7) Repurchase agreement, dated 10/29/10, due 11/01/10 with repurchase proceeds of \$23,428,020 is collateralized by US Treasury Note 2.50% due 04/30/15 with a market value of \$23,900,402.
- 144A Securities restricted for resale to Qualified Institutional Buyers. At October 31, 2010, these restricted securities amounted to \$120,285,700, which represented 15.32% of total net assets.
- ADR American Depositary Receipt.

See notes to financial statements and notes to schedule of investments.

**THE CHINA FUND, INC.**  
**STATEMENT OF ASSETS AND LIABILITIES**  
**October 31, 2010**

**ASSETS**

Investments in securities, at value (cost \$416,366,921) (securities on loan \$64,499,371) (Note A) . . . . .	\$675,630,091
Investments in affiliated investments, at value (cost \$138,993,617) (Notes A and F) . . . . .	<u>165,048,188</u>
Total Investments . . . . .	840,678,279
Cash . . . . .	341,919
Foreign currency, at value (cost \$9,402,250). . . . .	9,725,731
Receivable for investments sold . . . . .	5,610,194
Receivable for securities lending income . . . . .	62,104
Dividends and interest receivable . . . . .	614,929
Prepaid expenses . . . . .	<u>51,288</u>
<b>TOTAL ASSETS</b> . . . . .	<u><b>857,084,444</b></u>

**LIABILITIES**

Payable for investments purchased . . . . .	5,498,527
Payable upon return of collateral for securities loaned . . . . .	64,819,389
Investment management fee payable (Note B) . . . . .	543,491
Administration and custodian fees payable (Note B). . . . .	262,569
Payable for taxes on dividends . . . . .	44,694
Contingent liability (Note A) . . . . .	717,795
Accrued expenses and other liabilities . . . . .	<u>195,762</u>
<b>TOTAL LIABILITIES</b> . . . . .	<u>72,082,227</u>
<b>TOTAL NET ASSETS</b> . . . . .	<u><b>\$785,002,217</b></u>

**COMPOSITION OF NET ASSETS:**

Paid in capital (Note C). . . . .	454,100,635
Undistributed net investment income . . . . .	3,851,347
Accumulated net realized gain on investments and foreign currency transactions . . . . .	41,398,175
Net unrealized appreciation on investment and foreign currency translations . . . . .	<u>285,652,060</u>
<b>TOTAL NET ASSETS</b> . . . . .	<u><b>\$785,002,217</b></u>

**NET ASSET VALUE PER SHARE**

(\$785,002,217/22,781,762 shares of common stock outstanding) . . . . .	<u><b>\$34.46</b></u>
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See notes to financial statements.



**THE CHINA FUND, INC.**  
**STATEMENT OF OPERATIONS**  
**Year Ended October 31, 2010**

**INVESTMENT INCOME:**

Dividend income — (including dividends of \$2,666,554 from non-controlled affiliates, net of tax withheld of \$888,694) (Note F) . . . . .	\$ 10,394,790
Interest income — (including interest of \$1,346,704 from non-controlled affiliates) . . . . .	1,359,844
Securities lending income . . . . .	943,479
<b>TOTAL INVESTMENT INCOME</b> . . . . .	<u>12,698,113</u>

**EXPENSES**

Investment Management fees (Note B) . . . . .	5,127,620
Custodian fees (Note B) . . . . .	966,705
Administration fees (Note B) . . . . .	596,537
Directors' fees and expenses (Note B) . . . . .	357,893
Stock dividend tax expense . . . . .	389,815
Legal fees . . . . .	131,461
Printing and postage . . . . .	87,030
Shareholder service fees . . . . .	5,438
Insurance . . . . .	48,125
Audit and tax service fees . . . . .	105,762
Stock exchange listing fee . . . . .	43,021
Transfer agent fees . . . . .	24,679
Chief Compliance Officer fee . . . . .	52,500
Miscellaneous expenses . . . . .	73,442
<b>TOTAL EXPENSES</b> . . . . .	<u>8,010,028</u>

<b>NET INVESTMENT INCOME</b> . . . . .	<u>4,688,085</u>
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**REALIZED AND UNREALIZED GAIN/(LOSS) ON INVESTMENTS AND FOREIGN CURRENCY TRANSACTIONS**

Net realized gain on investments . . . . .	53,652,407
Net realized loss on non-controlled affiliate transactions (Note F) . . . . .	(385,819)
Net realized loss on foreign currency transactions . . . . .	(997,768)
	<u>52,268,820</u>
Net change in unrealized appreciation/(depreciation) on investments . . . . .	112,330,648
Net change in unrealized appreciation/(depreciation) on foreign currency transactions . . . . .	1,072,966
	<u>113,403,614</u>

**NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS AND FOREIGN CURRENCY TRANSACTIONS**

	<u>165,672,434</u>
<b>NET INCREASE IN NET ASSETS FROM OPERATIONS</b> . . . . .	<u>\$170,360,519</u>

See notes to financial statements.

**THE CHINA FUND, INC.**  
**STATEMENTS OF CHANGES IN NET ASSETS**

	<u>Year Ended October 31, 2010</u>	<u>Year Ended October 31, 2009</u>
<b>INCREASE IN NET ASSETS FROM OPERATIONS</b>		
Net investment income . . . . .	\$ 4,688,085	\$ 6,205,278
Net realized gain/(loss) on investments and foreign currency transactions . .	52,268,820	(10,213,191)
Net increase in unrealized appreciation/(depreciation) on investments and foreign currency transactions . . . . .	<u>113,403,614</u>	<u>261,815,537</u>
Net increase/(decrease) in net assets from operations . . . . .	<u>170,360,519</u>	<u>257,807,624</u>
<b>DISTRIBUTIONS TO SHAREHOLDERS FROM:</b>		
Net investment income . . . . .	(5,825,297)	(8,737,395)
Capital gains . . . . .	<u>—</u>	<u>(96,870,178)</u>
Total distributions to shareholders . . . . .	<u>(5,825,297)</u>	<u>(105,607,573)</u>
<b>CAPITAL SHARE TRANSACTIONS: (NOTE C)</b>		
Reinvestment of dividends and distributions . . . . .	<u>—</u>	<u>73,909,497</u>
Net increase in net assets from capital share transactions . . . . .	<u>—</u>	<u>73,909,497</u>
<b>NET INCREASE IN NET ASSETS</b> . . . . .	<u>164,535,222</u>	<u>226,109,548</u>
<b>NET ASSETS:</b>		
Beginning of year . . . . .	<u>620,466,995</u>	<u>394,357,447</u>
End of year . . . . .	<u>\$785,002,217</u>	<u>\$ 620,466,995</u>
Undistributed net investment income, end of year . . . . .	<u>\$ 3,851,347</u>	<u>\$ 5,981,080</u>

See notes to financial statements.

**THE CHINA FUND, INC.**  
**STATEMENT OF CASH FLOWS**  
**For The Year Ended October 31, 2010**

Increase (decrease) in cash -

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Net increase in net assets resulting from operations . . . . .	\$ 170,360,519
Adjustments to reconcile net increase in net assets from operations to net cash provided from operating activities:	
Purchases of investment securities . . . . .	(202,264,540)
Proceeds from disposition of investment securities . . . . .	195,353,486
Net proceeds of short-term investments . . . . .	9,773,000
Proceeds from foreign cash transactions . . . . .	(581,838)
Increase in collateral for securities loaned . . . . .	(34,525,343)
Decrease in dividends and interest receivable . . . . .	346,472
Increase in receivable for securities lending income . . . . .	(42,802)
Increase in receivable for investments sold . . . . .	(5,610,194)
Increase in prepaid expenses and miscellaneous assets . . . . .	(3,162)
Increase in payable for securities purchased . . . . .	5,329,225
Increase in payable upon return of collateral for securities loaned . . . . .	34,525,343
Increase in accrued expenses and other liabilities . . . . .	100,718
Net change in unrealized (appreciation)/depreciation on foreign currency contracts . . . . .	(1,072,966)
Net change in unrealized (appreciation)/depreciation on investments . . . . .	(112,330,648)
Net realized gain from investments and foreign currency transactions . . . . .	<u>(52,268,820)</u>
Net cash provided by operating activities . . . . .	<u>7,088,450</u>

**CASH FLOWS FROM FINANCING ACTIVITIES:**

Cash distributions paid . . . . .	<u>(5,825,297)</u>
Net cash used for financing activities . . . . .	<u>(5,825,297)</u>

<b>NET INCREASE IN CASH</b> . . . . .	1,263,153
<b>CASH AT BEGINNING OF YEAR</b> . . . . .	<u>8,804,497</u>
<b>CASH AT END OF YEAR</b> . . . . .	<u><u>\$ 10,067,650</u></u>

See notes to financial statements.

**THE CHINA FUND, INC.**  
**FINANCIAL HIGHLIGHTS**

**Selected data for a share of common stock outstanding for the years indicated**

	Year Ended October 31,				
	2010 <sup>(1)</sup>	2009 <sup>(1)</sup>	2008	2007 <sup>(2)</sup>	2006
<b><u>Per Share Operation Performance*</u></b>					
Net asset value, beginning of year . . . . .	\$ 27.24	\$ 21.72	\$ 60.50	\$ 31.40	\$ 23.25
Net investment income . . . . .	0.21	0.29	0.49	0.28	0.30
Net realized and unrealized gain (loss) on investments and foreign currency transactions . . . . .	7.27	11.24	(25.66)	32.83	10.36
Total income (loss) from investment operations . . . . .	7.48	11.53	(25.17)	33.11	10.66
Less dividends and distributions:					
Dividend from net investment income . . . . .	(0.26)	(0.48)	(0.28)	(0.30)	(0.22)
Distributions from net realized capital gains . . . . .	0.00	(5.34)	(11.84)	(3.71)	(2.29)
Total dividends and distributions . . . . .	(0.26)	(5.82)	(12.12)	(4.01)	(2.51)
Capital Share Transactions:					
(Dilution) to net asset value, resulting from issuance of shares in stock dividend . . . . .	0.00	(0.19)	(1.49)	0.00	0.00
Net asset value, end of year . . . . .	\$ 34.46	\$ 27.24	\$ 21.72	\$ 60.50	\$ 31.40
Per share market price, end of year . . . . .	\$ 33.45	\$ 25.25	\$ 19.87	\$ 51.67	\$ 30.40
<b><u>Total Investment Return (Based on Market Price)</u></b> . . . . .	<b>33.70%</b>	<b>73.37%</b>	<b>(48.06)%</b>	<b>90.97%</b>	<b>37.20%</b>
<b><u>Ratios and Supplemental Data</u></b>					
Net assets, end of year (000's) . . . . .	\$785,002	\$620,467	\$394,357	\$881,856	\$455,206
Ratio of net expenses to average net assets . . . . .	1.14%	1.44%	1.20%	1.08%	1.26%
Ratio of gross expenses to average net assets . . . . .	1.14%	1.44%	1.23%	1.08%	1.26%
Ratio of net expenses to average net assets, excluding stock dividend tax expense . . . . .	1.08%	1.42%	1.11%	1.04%	1.23%
Ratio of net investment income to average net assets . . . . .	0.67%	1.36%	1.28%	0.67%	1.09%
Portfolio turnover rate . . . . .	29%	34%	49%	46%	50%

\* Per share amounts have been calculated using the average share method.

<sup>(1)</sup> The Fund was audited by Ernst & Young LLP for the years ended October 31, 2009 and 2010. The previous periods were audited by another independent registered public accounting firm.

<sup>(2)</sup> The Fund's Direct Investment Manager changed as of June 2007.

See notes to financial statements.

# THE CHINA FUND, INC.

## NOTES TO FINANCIAL STATEMENTS

### OCTOBER 31, 2010

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#### **NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The China Fund, Inc. (the “Fund”) was incorporated under the laws of the State of Maryland on April 28, 1992, and is a non-diversified, closed-end management investment company registered under the Investment Company Act of 1940, as amended (the “1940 Act”). The Fund’s investment objective is long-term capital appreciation which it seeks to achieve by investing primarily in equity securities (i) of companies for which the principal securities trading market is the People’s Republic of China (“China”), (ii) of companies for which the principal securities trading market is outside of China, or constituting direct equity investments in companies organized outside of China, that in both cases derive at least 50% of their revenues from goods and services sold or produced, or have at least 50% of their assets, in China and (iii) constituting direct equity investments in companies organized in China. The following is a summary of significant accounting policies followed by the Fund in the preparation of its financial statements.

**Use of estimates:** The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses for the period. Actual results could differ from these estimates. The significant estimates made as of, and for the year ended, October 31, 2010 relate to Direct Investments and to the contingent liability resulting from the sale of Captive Finance in March 2007. A reserve of 10% of the net sale proceeds was established to cover any potential liabilities from the representation and warranties provided by the Fund in the transaction.

**Security valuation:** Portfolio securities listed on recognized United States or foreign securities exchanges are valued at the last quoted sales price in the principal market where they are traded. Listed securities with no such sales price and unlisted securities are valued at the mean between the current bid and asked prices, if any, from brokers. Short-term investments having maturities of sixty days or less are valued at amortized cost (original purchase cost as adjusted for amortization of premium or accretion of discount) which when combined with accrued interest approximates market value. Securities for which market quotations are not readily available are valued at fair value in good faith by or at the direction of the Board of Directors and considering relevant factors, data and information including, if relevant, the market value of freely tradable securities of the same class in the principal market on which such securities are normally traded. Direct Investments are valued at fair value as determined by or at the direction of the Board of Directors based on financial and other information supplied by the Direct Investment Manager regarding each Direct Investment. Forward currency contracts are valued at the current cost of offsetting the contract. Equity linked securities are valued at fair value primarily based on the value(s) of the security (or securities) underlying, which normally follows the same methodology as the valuation of securities listed on recognized exchanges.

Factors used in determining value may include, but are not limited to, the type of security, the size of the holding, the initial cost of the security, the existence of any contractual restrictions on the security’s disposition, the price and extent of public trading in similar securities of the issuer or of comparable companies, the availability of quotations from broker-dealers, the availability of values of third parties other than the Investment Manager or Direct Investment Manager, information obtained from the issuer, analysts, and/or the appropriate stock exchange (if available), an analysis of the company’s financial statements, an evaluation of the forces that influence the issuer and the market(s) in which the security is purchased and sold and with respect to debt securities, the maturity, coupon, creditworthiness, currency denomination, and the movement of the market in which they trade.

## NOTES TO FINANCIAL STATEMENTS (continued)

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**Repurchase Agreements:** In connection with transactions in repurchase agreements, it is the Fund's policy that its custodian take possession of the underlying collateral securities, the fair value of which exceeds the principal amount of the repurchase transaction, including accrued interest, at all times. If the seller defaults, and the fair value of the collateral declines, realization of the collateral by the Fund may be delayed or limited.

**Securities Lending:** The Fund may lend up to 33 $\frac{1}{3}$ % of the Fund's total assets held by State Street Bank and Trust Company ("State Street") as custodian to certain qualified brokers, except those securities which the Fund or the Investment Manager specifically identifies as not being available. By lending its investment securities, the Fund attempts to increase its net investment income through the receipt of interest on the loan. Any gain or loss in the market price of the securities loaned that might occur and any interest or dividends declared during the term of the loan would accrue to the account of the Fund. Risks of delay in recovery of the securities or even loss of rights in the collateral may occur should the borrower of the securities fail financially. Risks may also arise to the extent that the value of the collateral decreases below the value of the securities loaned. Upon entering into a securities lending transaction, the Fund receives cash or other securities as collateral in an amount equal to or exceeding 100% of the current market value of the loaned securities with respect to securities of the U.S. government or its agencies, 102% of the current market value of the loaned securities with respect to U.S. securities and 105% of the current market value of the loaned securities with respect to foreign securities. Any cash received as collateral is generally invested by State Street, acting in its capacity as securities lending agent (the "Agent"), in the State Street Navigator Securities Lending Prime Portfolio. A portion of the dividends received on the collateral is rebated to the borrower of the securities and the remainder is split between the Agent and the Fund.

As of October 31, 2010, the Fund had loaned securities which were collateralized by cash and short term investments. The value of the securities on loan and the value of the related collateral were as follows:

<u>Value of Securities</u>	<u>Value of Cash Collateral</u>	<u>Total Collateral</u>
\$64,499,371	\$64,819,389	\$67,103,921

**Foreign currency translations:** The records of the Fund are maintained in U.S. dollars. Foreign currencies, investments and other assets and liabilities are translated into U.S. dollars at the current exchange rates. Purchases and sales of investment securities and income and expenses are translated on the respective dates of such transactions. Net realized gains and losses on foreign currency transactions represent net gains and losses from the disposition of foreign currencies, currency gains and losses realized between the trade dates and settlement dates of security transactions, and the difference between the amount of net investment income accrued and the U.S. dollar amount actually received. The effects of changes in foreign currency exchange rates on investments in securities are not segregated in the Statement of Operations from the effects of changes in market prices of those securities, but are included in realized and unrealized gain or loss on investments. Net unrealized foreign currency gains and losses arise from changes in the value of assets and liabilities, other than investments in securities, as a result of changes in exchange rates.

**Forward Foreign Currency Contracts:** The Fund may enter into forward foreign currency contracts to hedge against foreign currency exchange rate risks. A forward currency contract is an agreement between two parties to buy

## NOTES TO FINANCIAL STATEMENTS (continued)

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or sell currency at a set price on a future date. Upon entering into these contracts, risks may arise from the potential inability of counterparties to meet the terms of their contracts and from unanticipated movements in the value of the foreign currency relative to the U.S. dollar. The U.S. dollar value of forward currency contracts is determined using forward exchange rates provided by quotation services. Daily fluctuations in the value of such contracts are recorded as unrealized gain or loss on the Statement of Assets and Liabilities. When the contract is closed, the Fund records a realized gain or loss equal to the difference between the value at the time it was opened and the value at the time it was closed. Such gain or loss is disclosed in the realized and unrealized gain or loss on foreign currency in the Fund's accompanying Statement of Operations. At October 31, 2010, The Fund did not hold open forward foreign currency contracts.

**Option Contracts:** The Fund may purchase and write (sell) call options and put options provided the transactions are for hedging purposes and the initial margin and premiums do not exceed 5% of total assets. Option contracts are valued daily and unrealized gains or losses are recorded on the Statement of Assets and Liabilities based upon the last sales price on the principal exchange on which the options are traded. The Fund will realize a gain or loss upon the expiration or closing of the option contract. Such gain or loss is disclosed in the realized and unrealized gain or loss on options in the Fund's accompanying Statement of Operations. When an option is exercised, the proceeds on sales of the underlying security for a written call option, the purchase cost of the security for a written put option, or the cost of the security for a purchased put or call option is adjusted by the amount of premium received or paid.

The risk in writing a call option is that the Fund gives up the opportunity for profit if the market price of the security increases and the option is exercised. The risk in writing a put option is that the Fund may incur a loss if the market price of the security decreases and the option is exercised. The risk in buying an option is that the Fund pays a premium whether or not the option is exercised. Risks may also arise from an illiquid secondary market or from the inability of counter parties to meet the terms of the contract.

**Equity Linked Securities:** The Fund may invest in equity-linked securities such as linked participation notes, equity swaps and zero-strike options and securities warrants. Equity-linked securities currently held by the Fund are privately issued securities whose investment results are designed to correspond generally to the performance of a specified stock index or "basket" of stocks, or a single stock. Access Products may be used by the Fund to gain exposure to countries that place restrictions on investments by foreigners. To the extent that the Fund invests in Access Products whose return corresponds to the performance of a foreign securities index or one or more foreign stocks, investing in Access Products will involve risks similar to the risks of investing in foreign securities. In addition, the Fund bears the risk that the issuer of an Access Product may default on its obligation under the terms of the arrangement with the counterparty. Access Products are often used for many of the same purposes as, and share many of the same risks with, derivative instruments. In addition, Access Products may be considered illiquid.

At October 31, 2010, the Fund held equity-linked Access Product warrants through Credit Lyonnais and Citigroup Global Markets Holdings, the issuers. Under the terms of the agreements, each warrant entitles the Fund to receive from the issuers an amount in U.S. dollars linked to the performance of specific equity shares.

## NOTES TO FINANCIAL STATEMENTS (continued)

**Direct Investments:** The Fund may invest up to 25% of the net proceeds from its offering of its outstanding common stock in direct investments. Direct investments are generally restricted and do not have a readily available resale market. Because of the absence of any public trading market for these investments, the Fund may take longer to liquidate these positions than would be the case for publicly traded securities. Although these securities may be resold in privately negotiated transactions, the prices on these sales could be less than those originally paid by the Fund. Issuers whose securities are not publicly traded may not be subject to public disclosure and other investor protection requirements applicable to publicly traded securities. The value of these securities at October 31, 2010 was \$53,507,499 or 6.8% of the Fund's net asset value. The table below details the acquisition date, cost, and value of the Fund's direct investments as determined by the Board of Directors of the Fund. The Fund does not have the right to demand that such securities be registered.

<u>Security</u>	<u>Acquisition Date</u>	<u>Cost</u>	<u>Value</u>
China Bright . . . . .	08/27/2010	\$14,969,436	\$15,021,769
China Silicon Corp., Series A Preferred* . . . . .	11/30/2007	6,552,874	—
China Silicon Corp. Common Stock . . . . .	01/08-09/10	1,458,811	—
HAND Enterprise Solutions, Ltd. Preferred . . . . .	02/01/2007	—	—
HAND Enterprise Solutions, Ltd. Common Stock . . . . .	02/11/2010	3,164,275	14,192,162
Qingdao Bright Moon Seaweed Group Co., Ltd. . . . .	02/28/2008	7,121,480	9,293,534
Ugent Holdings, Ltd. . . . .	04/06/2009	22,844,928	—
Zong Su Foods . . . . .	09/21/2010	15,000,034	15,000,034
		<u>\$71,111,838</u>	<u>\$53,507,499</u>

\* The purchase of China Silicon Corp., Series A Preferred resulted in the Fund receiving 685,450 shares of China Silicon Corp. common stock warrants. Each warrant entitles the Fund to purchase shares of common stock at an exercise price of USD\$2.98 per share, subject to adjustment.

**Indemnification Obligations:** Under the Fund's organizational documents, its Officers and Directors are indemnified against certain liabilities arising out of the performance of their duties to the Fund. In addition, in the normal course of business the Fund enters into contracts that provide general indemnifications to other parties. The Fund's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Fund that have not yet occurred.

**Security transactions and investment income:** Security transactions are recorded as of the trade date. Realized gains and losses from securities sold are recorded on the identified cost basis. Dividend income is recorded on the ex-dividend date, or, in the case of dividend income on foreign securities, on the ex-dividend date or when the Fund becomes aware of its declaration. Interest income is recorded on the accrual basis. All premiums and discounts are amortized/accreted for both financial reporting and federal income tax purposes.



## NOTES TO FINANCIAL STATEMENTS (continued)

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Dividend and interest income generated in Taiwan is subject to a 20% withholding tax. Stock dividends received (except those which have resulted from Capitalization of capital surplus) are taxable at 20% of the par value of the stock dividends received. The Fund records the taxes paid on stock dividends as an operating expense.

**Dividends and distributions:** The Fund intends to distribute to its shareholders, at least annually, substantially all of its net investment income and any net realized capital gains. Distributions to shareholders are recorded on the ex-dividend date. Income and capital gain distributions are determined in accordance with income tax regulations, which may differ from U.S. generally accepted accounting principles. Certain capital accounts in the financial statements are periodically adjusted for permanent differences in order to reflect their tax character. These adjustments have no impact on net assets or net asset value per share. Temporary differences which arise from recognizing certain items of income, expense, gain or loss in different periods for financial statement and tax purposes will reverse at some time in the future.

The Fund made distributions of \$5,825,297 from Ordinary Income during the year ended October 31, 2010. For the year ended October 31, 2009 the Fund made distributions of \$8,738,986 from Ordinary Income and \$96,868,587 from Long-Term Capital Gains. During the year ended October 31, 2010, the Fund utilized \$9,991,827 of capital loss carryforwards.

As of October 31, 2010, the components of distributable earnings on a tax basis were \$5,453,067 of undistributed ordinary income, \$43,274,761 of undistributed capital gains and \$282,173,754 of unrealized appreciation, resulting in a total of \$330,901,582. Permanent book/tax differences relate to foreign currency gains and losses and a 2009 excise tax paid.

**Federal Taxes:** It is the Fund's policy to comply with the Subchapter M provision of the Internal Revenue Code ("Code") and to distribute to shareholders each year substantially all of its income. Accordingly, no provision for federal income tax is necessary. As of and during the year ended October 31, 2010, the Fund did not have a liability for any uncertain tax positions. The Fund recognizes interest and penalties, if any, related to tax liabilities as income tax expense in the Statement of Operations. As of October 31, 2010, tax years 2007 through 2010 remain subject to examination by the Fund's major tax jurisdictions, which include the United States of America and the state of Maryland. The Fund may be subject to taxes imposed by governments of countries in which it invests. Such taxes are generally based on either income or gains earned or repatriated. The Fund accrues and applies such taxes to net investment income, net realized gains and net unrealized gains as income and/or gains are earned.

### **NOTE B — ADVISORY FEE AND OTHER TRANSACTIONS**

Martin Currie Inc. is the investment manager for the Fund's listed assets (the "Listed Assets"). Martin Currie Inc. receives a fee, computed weekly and payable monthly, at the following annual rates: 0.70% of the first US\$315 million of the Fund's average weekly net assets invested in Listed Assets; and 0.50% of the Fund's average weekly net assets invested in Listed Assets in excess of US\$315 million. Martin Currie Inc. is also the investment manager for the Fund's direct investments. Martin Currie Inc. receives a fee computed weekly and payable monthly, at an annual rate of 2.00% of the average weekly value of the Fund's assets invested in direct investments.

No director, officer or employee of the Investment Manager or Direct Investment Manager or any affiliates of those entities will receive any compensation from the Fund for serving as an officer or director of the Fund. The Fund pays the Chairman of the Board and each of the directors (who is not a director, officer or employee of the Investment Manager or Direct

## NOTES TO FINANCIAL STATEMENTS (continued)

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Investment Manager or any affiliate thereof) an annual fee of \$35,000 and \$15,000 respectively, plus \$3,000 for each Board of Directors' meeting or Audit and Nominating Committee meeting attended, \$2,000 for each telephonic meeting attended and \$2,000 for each Valuation Committee teleconference. In addition, the Fund will reimburse each of the directors for travel and out-of-pocket expenses incurred in connection with attending Board of Directors' meetings.

State Street Bank and Trust Company ("State Street") provides, or arranges for the provision of certain administrative services for the Fund, including preparing certain reports and other documents required by federal and/or state laws and regulations. The Fund pays State Street a fee that is calculated daily and paid monthly at an annual rate based on aggregate average daily assets of the Fund. The Fund also pays State Street an annual fee for certain legal administration services, including corporate secretarial services and preparing regulatory filings.

The Fund has also contracted with State Street to provide custody and fund accounting services to the Fund. For these services, the Fund pays State Street asset-based fees that vary according to the number of positions and transactions plus out-of-pocket expenses.

### **NOTE C — CAPITAL STOCK**

The Board of Directors of the Fund has approved a share repurchase plan. Under the program, the Fund will repurchase shares at management's discretion at times when it considers the repurchase to be consistent with the objectives of the program. For the year ended October 31, 2010, the Fund did not repurchase any shares under the plan. At October 31, 2010, 100,000,000 shares of \$.01 par value common stock were authorized.

### **NOTE D — INVESTMENT TRANSACTIONS**

For the year ended October 31, 2010, the Fund's cost of purchases and proceeds from sales of investment securities, other than short-term securities, were \$202,264,540 and \$195,489,909, respectively. At October 31, 2010, the cost of investments for federal income tax purposes was \$558,838,844. Gross unrealized appreciation of investments was \$325,910,182 while gross unrealized depreciation of investments was \$44,070,747, resulting in net unrealized appreciation of investments of \$281,839,435. The primary difference between book-basis and tax-basis unrealized appreciation or unrealized depreciation of investments is the tax deferral of losses on wash sales and income accruals from defaulted bonds.

### **NOTE E — INVESTMENTS IN CHINA**

The Fund's investments in China companies involve certain risks not typically associated with investments in securities of U.S. companies or the U.S. Government, including risks relating to (1) social, economic and political uncertainty; (2) price volatility, lesser liquidity and smaller market capitalization of securities markets in which securities of China companies trade; (3) currency exchange fluctuations, currency blockage and higher rates of inflation; (4) controls on foreign investment and limitations on repatriation of invested capital and on the Fund's ability to exchange local currencies for U.S. dollars; (5) governmental involvement in and control over the economy; (6) risk of nationalization or expropriation of assets; (7) the nature of the smaller, less seasoned and newly organized China companies, particularly in China; and (8) the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and less government supervision and regulation.

## NOTES TO FINANCIAL STATEMENTS (continued)

### NOTE F — INVESTMENTS IN NON-CONTROLLED AFFILIATES\*:

Name of Issuer	Balance of Shares Held October 31, 2009	Gross Purchases and Additions	Gross Sales and Reductions	Balance of Shares Held October 31, 2010	Value October 31, 2010	Income from Non-Controlled Affiliates	Gain/(Loss) Realized on Sale of Shares as of October 31, 2010
CDW Holding, Ltd. . . . .	54,708,000	—	3,250,000	51,458,000	\$ 3,179,487	\$ 319,248	\$ 133,445
China Bright . . . . .	—	14,665,617	—	14,665,617	15,021,769	—	—
China Medical System Holdings, Ltd.(1) . . . .	3,623,188	68,840,572	110,000	72,353,760	46,202,614	1,202,898	67,476
China Silicon Corp. Common Stock . . . . .	1,171,572	1,130,291	—	2,301,863	—	—	—
China Silicon Corp., Series A Preferred . . . .	27,418	—	—	27,418	—	497,570	—
China Silicon Corp. Warrants . . . . .	685,450	—	—	685,450	—	—	—
Far East Energy Corp. . . . .	14,565,477	2,963,800	—	17,529,277	9,730,502	—	—
HAND Enterprise Solutions, Ltd. Common Stock . . . . .	500,000	—	—	500,000	—	—	—
HAND Enterprise Solutions, Ltd. Preferred . .	—	8,027,241	—	8,027,241	14,192,162	—	—
Highlight Tech. Corp. . . . .	2,525,170	—	2,525,170	—	—	113,589	(19,421)
Huiyin Household Appliances Holdings Co., Ltd.(2) . . . . .	450	160,413,300	—	160,413,750	44,491,832	533,249	—
Qingdao Bright Moon Seaweed Group Co., Ltd. . . . .	31,827,172	—	—	31,827,172	9,293,534	—	—
Taiwan Life Insurance Co., Ltd. . . . .	—	200,000,000	—	200,000,000	7,936,254	215,028	—
teco Optronics Corp . . . . .	1,861,710	—	1,861,710	—	—	—	(567,319)
Ugent Holdings, Ltd. . . . .	177,000,000	—	—	177,000,000	—	1,131,676	—
Zong Su Foods . . . . .	—	2,677	—	2,677	15,000,034	—	—

\* Affiliated issuers, as defined in the 1940 Act as amended, include issuers in which the Fund held 5% or more of the outstanding voting securities.

(1) Additional shares acquired resulting from a corporate action.

(2) Shares issued as a result of an IPO, formally Queensbury Investments, Ltd. (Huiyin).

### NOTE G — FAIR VALUE MEASUREMENT

The fund has adopted fair valuation accounting standards which establish a definition of fair value and set out a hierarchy for measuring fair value. These standards require additional disclosures about the various inputs and valuation techniques used to develop the measurements of fair value and a discussion in changes in valuation techniques and related inputs during the period. These inputs are summarized in the three broad levels listed below:

- Level 1 — Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Fund has the ability to access at the measurement date;

## NOTES TO FINANCIAL STATEMENTS (continued)

- Level 2 — Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active;
- Level 3 — Inputs that are unobservable.

The following is a summary of the inputs used as of October 31, 2010 in valuing the Fund's investments carried at value:

### ASSETS VALUATION INPUT

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>COMMON STOCK AND OTHER EQUITY INTERESTS</b>				
Hong Kong				
Consumer Discretionary . . . . .	\$31,227,059	\$ —	\$44,491,832	\$75,718,891
Consumer Staples . . . . .	24,428,180	—	—	24,428,180
Energy . . . . .	8,077,373	—	—	8,077,373
Health Care . . . . .	22,062,941	—	—	22,062,941
Utilities . . . . .	15,150,179	—	—	15,150,179
Total Hong Kong . . . . .	<u>100,945,732</u>	<u>—</u>	<u>44,491,832</u>	<u>145,437,564</u>
Hong Kong — “H” Shares				
Consumer Discretionary . . . . .	22,867,936	—	—	22,867,936
Consumer Staples . . . . .	28,185,537	—	—	28,185,537
Health Care . . . . .	93,946,243	—	—	93,946,243
Industrials . . . . .	7,011,403	—	—	7,011,403
Materials . . . . .	11,347,760	—	—	11,347,760
Telecommunications . . . . .	11,936,815	—	—	11,936,815
Total Hong Kong — “H” Shares . . . . .	<u>175,295,694</u>	<u>—</u>	<u>—</u>	<u>175,295,694</u>
Singapore				
Consumer Staples . . . . .	46,872,253	—	—	46,872,253
Financials . . . . .	3,809,461	—	—	3,809,461
Information Technology . . . . .	3,179,487	—	—	3,179,487
Total Singapore . . . . .	<u>53,861,201</u>	<u>—</u>	<u>—</u>	<u>53,861,201</u>
Taiwan				
Consumer Discretionary . . . . .	44,728,175	—	—	44,728,175
Consumer Staples . . . . .	22,905,121	—	—	22,905,121
Financials . . . . .	50,090,447	—	7,936,254	58,026,701
Information Technology . . . . .	13,856,577	—	—	13,856,577
Materials . . . . .	11,792,724	—	—	11,792,724
Total Taiwan . . . . .	<u>143,373,044</u>	<u>—</u>	<u>7,936,254</u>	<u>151,309,298</u>

## NOTES TO FINANCIAL STATEMENTS (continued)

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
United States				
Consumer Discretionary . . . . .	\$ 614,393	\$ —	\$ —	\$ 614,393
Energy . . . . .	9,730,502	—	—	9,730,502
Health Care . . . . .	23,013,381	—	—	23,013,381
Information Technology . . . . .	19,375,658	—	—	19,375,658
Total United States . . . . .	<u>52,733,934</u>	<u>—</u>	<u>—</u>	<u>52,733,934</u>
TOTAL COMMON STOCK AND OTHER				
EQUITY INTERESTS . . . . .	<u>526,209,605</u>	<u>—</u>	<u>52,428,086</u>	<u>578,637,691</u>
EQUITY LINKED SECURITIES				
Consumer Discretionary . . . . .	—	9,942,946	—	9,942,946
Consumer Staples . . . . .	—	7,656,131	—	7,656,131
Financials . . . . .	—	58,775,998	—	58,775,998
Industrials . . . . .	—	35,803,799	—	35,803,799
Materials . . . . .	—	8,106,826	—	8,106,826
TOTAL EQUITY LINKED SECURITIES . . . . .	<u>—</u>	<u>120,285,700*</u>	<u>—</u>	<u>120,285,700</u>
DIRECT INVESTMENTS				
Consumer Staples . . . . .	—	—	15,000,034	15,000,034
Health Care . . . . .	—	—	15,021,769	15,021,769
Industrials . . . . .	—	—	9,293,534	9,293,534
Information Technology . . . . .	—	—	14,192,162	14,192,162
TOTAL DIRECT INVESTMENTS . . . . .	<u>—</u>	<u>—</u>	<u>53,507,499</u>	<u>53,507,499</u>
COLLATERAL FOR SECURITIES ON LOAN . .	—	64,819,389	—	64,819,389
SHORT TERM INVESTMENTS				
UNITED STATES . . . . .	—	23,428,000	—	23,428,000
TOTAL INVESTMENTS . . . . .	<u>\$526,209,605</u>	<u>\$208,533,089</u>	<u>\$105,935,585</u>	<u>\$840,678,279</u>

The Fund's policy is to recognize transfers between levels at the end of the reporting period

\* For the year ended October 31, 2010, transfers from Level 1 to Level 2 are due to changes in the Fund's policy regarding the classification of equity linked securities.

## NOTES TO FINANCIAL STATEMENTS (continued)

The following is a reconciliation of the fair valuations using significant unobservable inputs (Level 3) for the fund during the year ended October 31, 2010:

	Balance as of October 31, 2009	Net Purchases (Sales)	Realized Gain (Loss)	Change in Unrealized Appreciation (Depreciation)	Net Transfers in and/or out to Level 3	Balance as of October 31, 2010	Change in Unrealized Appreciation (Depreciation) from Investments Held at October 31, 2010
<b>Investments in Securities</b>							
<b>COMMON STOCK AND OTHER EQUITY INTERESTS</b>							
Consumer Discretionary . . . . .	\$ —	\$ 38,458,859	\$ —	\$ 6,032,973	\$ —	\$ 44,491,832	\$ 6,032,973
Financials . . . . .	—	6,178,274	—	1,757,980	—	7,936,254	1,757,980
Health Care . . . . .	27,918,189	(6,907,955)	3,286,548	(582,926)	(23,713,856)*	—	—
	<u>27,918,189</u>	<u>37,729,178</u>	<u>3,286,548</u>	<u>7,208,027</u>	<u>(23,713,856)</u>	<u>52,428,086</u>	<u>7,790,953</u>
<b>DIRECT INVESTMENTS</b>							
Consumer Discretionary . . . . .	47,108,700	(38,515,190)	—	(8,593,510)	—	—	—
Consumer Staples . . . . .	—	15,000,034	—	—	—	15,000,034	—
Health Care . . . . .	—	14,969,436	—	52,333	—	15,021,769	52,333
Industrials . . . . .	34,180,814	(4,489,024)	(19,420)	(20,378,836)	—	9,293,534	(20,398,256)
Information Technology . . . . .	13,437,401	497,570	(567,319)	824,510	—	14,192,162	257,191
	<u>94,726,915</u>	<u>(12,537,174)</u>	<u>(586,739)</u>	<u>(28,095,503)</u>	<u>—</u>	<u>53,507,499</u>	<u>(20,088,732)</u>
	<u>\$122,645,104</u>	<u>\$ 25,192,004</u>	<u>\$2,699,809</u>	<u>\$(20,887,476)</u>	<u>\$(23,713,856)</u>	<u>\$105,935,585</u>	<u>\$(12,297,779)</u>

\* Sinopharm Medicine Holding Co., Ltd. no longer has a sale restriction, nor is fair valued by the Board and is considered a Level 1 valued security.

### NOTE H — DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The following table, grouped into appropriate risk categories, discloses the amounts related to the Fund's use of derivative instruments and hedging activities at October 31, 2010:

<u>Derivatives not accounted for as hedging instruments</u>	<u>Foreign Exchange Contracts Risk</u>	<u>Total</u>
<b>Realized Gain (Loss)(1)</b>		
Forward Contracts . . . . .	\$(829,775)	\$(829,775)
<b>Change in Appreciation (Depreciation)(2)</b>		
Forward Contracts . . . . .	831,048	831,048

(1) Statements of Operations location: Net realized loss on foreign currency transactions.

(2) Statements of Operations location: Net change in unrealized appreciation/(depreciation) on foreign currency transactions.

## **NOTES TO FINANCIAL STATEMENTS (continued)**

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The volume of trading in derivative instruments was to close out prior year open contracts for the year ended October 31, 2010.

### **NOTE I — SUBSEQUENT EVENT**

On November 19, 2010, the Fund determined, in conjunction with the Direct Investment Manager that the valuation of the Ugent Holdings, Ltd., 12% bonds purchased April 6, 2009, due April 6, 2012 (the “Bonds”) held by the Fund, should be adjusted to US\$0.00. This zero valuation has been reflected in the accompanying financial statements as of October 31, 2010. Additionally, the Fund has asserted that the Direct Investment Manager breached certain duties and obligations in causing the Fund to purchase the Bonds by participating in a transaction in which another party advised by the Direct Investment Manager was also involved. In order to resolve any potential claims or disputes regarding the purchase of the Bonds, the Fund, the Direct Investment Manager and a syndicate of insurance companies (acting on behalf of the Direct Investment Manager) have entered into an agreement on December 30, 2010 for the insurance companies, severally, to indemnify the Fund against any loss arising from the sale or other disposition of the Bonds or, if no sale or disposition of the Bonds takes place prior to April 6, 2012, to reimburse the Fund for the cost of its investment, less any interest or other income received. The Direct Investment Manager has agreed to reimburse the Fund for associated legal, audit, management fees related to the Ugent investment previously paid by the Fund and other costs. Because the agreement supporting this arrangement constitutes a binding and legally enforceable commitment to the Fund, its value (US\$20,120,858) has been reflected in the net asset value of the Fund as of December 30, 2010. The Board has suspended further direct investments until improvements are made in the policies and procedures pursuant to which direct investments are made.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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To the Board of Directors and Shareholders of  
The China Fund, Inc.:

We have audited the accompanying statement of assets and liabilities of The China Fund, Inc. (the Fund), including the schedule of investments, as of October 31, 2010, and the related statements of operations and cash flows for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the two years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits. The financial highlights for each of the three years in the period ended October 31, 2008 were audited by another independent registered public accounting firm whose report, dated December 29, 2008, expressed an unqualified opinion on the financial highlights.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of October 31, 2010, by correspondence with the custodian and brokers or by other appropriate auditing procedures where replies from brokers were not received. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of The China Fund, Inc. at October 31, 2010, the results of its operations and its cash flows for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the two years in the period then ended, in conformity with U.S. generally accepted accounting principles.

*Ernst + Young LLP*

Boston, Massachusetts  
December 30, 2010



## THE CHINA FUND, INC.

### Other Information (Unaudited)

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#### TAX INFORMATION

**Foreign Taxes Credit:** The Fund designates \$1,264,800 as foreign taxes paid and \$10,436,119 as foreign source income earned for regular Federal income tax purposes.

**Qualified Dividend Income:** For the fiscal year ended October 31, 2010, the Fund will designate up to the maximum amount allowable pursuant to the Internal Revenue Code, as qualified dividend income eligible for reduced tax rates. These lower rates range from 5% to 15% depending on the individual's tax bracket. Complete information will be reported in conjunction with Form 1099-DIV. For the year ended October 31, 2010, the Fund had \$1,630,855 in Qualified Dividend Income.

#### PRIVACY POLICY

##### Privacy Notice

The China Fund, Inc. collects nonpublic personal information about its shareholders from the following sources:

- Information it receives from shareholders on applications or other forms; and
- Information about shareholder transactions with the Fund.

**The Fund's policy is to not disclose nonpublic personal information about its shareholders to nonaffiliated third parties** (other than disclosures permitted by law).

The Fund restricts access to nonpublic personal information about its shareholders to those agents of the Fund who need to know that information to provide products or services to shareholders. The Fund maintains physical, electronic and procedural safeguards that comply with federal standards to guard its shareholders' nonpublic personal information.

#### PROXY VOTING POLICIES AND PROCEDURES

A description of the policies and procedures that are used by the Fund's investment advisers to vote proxies relating to the Fund's portfolio securities is available (1) without charge, upon request, by calling 1-888-CHN-CALL (246-2255); and (2) as an exhibit to the Fund's annual report on Form N-CSR which is available on the website of the Securities and Exchange Commission (the "Commission") at <http://www.sec.gov>. Information regarding how the investment advisers vote these proxies is now available by calling the same number and on the Commission's website. The Fund has filed its report on Form N-PX covering the Fund's proxy voting record for the 12 month period ending June 30, 2010.

#### QUARTERLY PORTFOLIO OF INVESTMENTS

A Portfolio of Investments will be filed as of the end of the first and third quarter of each fiscal year on Form N-Q and will be available on the Securities and Exchange Commission's website at <http://www.sec.gov>. Form N-Q has been filed as of July 31, 2010 for the third quarter of this fiscal year and is available on the Securities and Exchange Commission's website at <http://www.sec.gov>. Additionally, the Portfolio of Investments may be reviewed and copied at the Commission's Public Reference Room in Washington, DC. Information on the operation of the Public Reference

**THE CHINA FUND, INC.**  
**Other Information (continued) (Unaudited)**

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Room may be obtained by calling 1-800-SEC-0330. The quarterly Portfolio of Investments will be made available with out charge, upon request, by calling 1-888-246-2255.

**CERTIFICATIONS**

The Fund's chief executive officer has certified to the New York Stock Exchange that, as of April 7, 2010, he was not aware of any violation by the Fund of applicable New York Stock Exchange corporate governance listing standards. The Fund also has included the certifications of the Fund's chief executive officer and chief financial officer required by Section 302 and Section 906 of the Sarbanes-Oxley Act of 2002 in the Fund's Form N-CSR filed with the Securities and Exchange Commission, for the period of this report.

# **BOARD DELIBERATIONS REGARDING APPROVAL OF INVESTMENT MANAGEMENT AGREEMENTS**

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## **General Background**

Martin Currie Inc. (“Martin Currie”) acts as the Fund’s investment manager, with exclusive investment discretion over the Fund’s assets pursuant to two investment management and advisory agreements with the Fund: a “Listed Management Agreement” and a “Direct Management Agreement”. Martin Currie is a registered investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the “Advisers Act”).

The Fund may invest up to 100% of the portion of the Fund’s assets allocated for investment in listed securities (the “Listed Investments”) pursuant to the Listed Management Agreement. The Fund pays Martin Currie a fee for its investment management of the Fund’s Listed Investments that is computed weekly and payable monthly, at an annual rate of 0.70% of the Fund’s average weekly net assets consisting of Listed Investments up to US\$315 million and 0.50% of the Fund’s average weekly net assets consisting of Listed Investments in excess of US\$315 million (the “Listed Investment Management Fee”).

The Fund may invest up to 25% of the net proceeds of its offerings of its outstanding common stock in direct equity investments (the “Direct Investments”) pursuant to the Direct Management Agreement. The Fund pays Martin Currie a fee for its investment management of the Fund’s Direct Investments that is computed weekly and payable monthly at an annual rate of 2.00% of the Fund’s average weekly value of the Fund’s assets consisting of Direct Investments (the “Direct Investment Management Fee”).

## **Annual Approval Process**

The Fund’s Board of Directors (the “Board”) is legally required to review and re-approve the Listed Management Agreement and the Direct Management Agreement (together, the “Advisory Agreements”) once a year. Throughout the year, the Board considers a wide variety of materials and information about the Fund, including, for example, the Fund’s investment performance, adherence to stated investment objectives and strategies, assets under management, expenses, regulatory compliance and management. The Board periodically meets with senior management and portfolio managers of Martin Currie and reviews and evaluates Martin Currie’s professional experience, credentials and qualifications. This information supplements the materials the Board received in preparation for the Meeting described below.

In determining whether it was appropriate to approve the Advisory Agreements during fiscal 2010, the Board requested from Martin Currie information that the Board believed to be reasonably necessary to reach its conclusion. This information together with the information provided to the Directors throughout the course of year formed the primary basis for the Directors’ determinations.

The Board met in executive session for the purpose of considering the approval of the Advisory Agreements. During the executive session, the Directors reviewed a memorandum which detailed the duties and responsibilities of the Directors with respect to their consideration of the Advisory Agreements. The Directors reviewed the contract renewal materials provided by Martin Currie, including, but not limited to (1) an organizational overview of Martin Currie and biographies of those personnel providing services to the Fund, (2) copies of the Listed Management Agreement, as amended, and the Direct Management Agreement, (3) a profitability analysis of Martin Currie, (4) financial statements

## **BOARD DELIBERATIONS REGARDING APPROVAL OF INVESTMENT MANAGEMENT AGREEMENTS (continued)**

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of Martin Currie, (5) Form ADV of Martin Currie, and (6) performance and fee comparison data provided by Fundamental Data, an independent third party vendor of such information on global closed-end funds.

The Board, consisting entirely of “independent directors” within the meaning of the Investment Company Act of 1940, unanimously approved the Advisory Agreements at an “in person” meeting held on June 17, 2010 (the “Meeting”). In evaluating the Advisory Agreements, the Directors drew on materials provided to them by Martin Currie. In deciding whether to renew the Advisory Agreements, the Directors considered various factors, including (1) the nature, extent and quality of the services provided by Martin Currie under the Advisory Agreements, (2) the investment performance of the Fund’s Listed Investments and Direct Investments (together, the “Fund’s Investments”), (3) the costs to Martin Currie of its services and the profits realized by Martin Currie from its relationship with the Fund, and (4) the extent to which economies of scale might be realized if and as the Fund grows and whether the fee levels in the Advisory Agreements reflect these economies of scale.

### **1. Nature, Extent and Quality of the Services provided by Martin Currie**

In considering the nature, extent and quality of the services provided by Martin Currie, the Directors relied on their prior experience as Directors of the Fund as well as on the materials provided at the Meeting. They noted that under the Advisory Agreements Martin Currie is responsible for managing the Fund’s Investments in accordance with the Fund’s investment objective and policies, applicable legal and regulatory requirements, and the instructions of the Directors, for providing necessary and appropriate reports and information to the Directors, for maintaining all necessary books and records pertaining to the Fund’s transactions in the Fund’s Investments, and for furnishing the Fund with the assistance, cooperation, and information necessary for the Fund to meet various legal requirements regarding registration and reporting. They noted the distinctive nature of the Fund as investing primarily in equity securities (i) of companies for which the principal securities trading market is in China, (ii) of companies for which the principal securities trading market is outside of China, or constituting direct equity investments in companies organized 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 or (iii) constituting direct equity investments in companies organized in China. They also noted the experience and expertise of Martin Currie as appropriate as an adviser to the Fund.

The Directors reviewed the background and experience of Martin Currie’s senior management, including those individuals responsible for the investment and compliance operations with respect to the Fund’s Investments, and the responsibilities of the investment and compliance personnel with respect to the Fund. They also considered the resources, operational structures and practices of Martin Currie in managing the Fund’s portfolio, in monitoring and securing the Fund’s compliance with its investment objective and policies and with applicable laws and regulations, and in seeking best execution of portfolio transactions. Drawing upon the materials provided and their general knowledge of the business of Martin Currie, the Directors took into account the fact that Martin Currie’s experience, resources and strength in these areas are deep, extensive and of high quality. On the basis of this review, the Directors determined that the nature and extent of the services provided by Martin Currie to the Fund were appropriate, had been of high quality, and could be expected to remain so.

## **BOARD DELIBERATIONS REGARDING APPROVAL OF INVESTMENT MANAGEMENT AGREEMENTS (continued)**

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### **2. Performance of the Fund's Investments**

The Directors noted that, in view of the distinctive investment objective of the Fund, the Fund's investment performance was better than satisfactory. Of importance to the Directors was the extent to which the Fund achieved its objective. Drawing upon information provided at the Meeting and upon reports provided to the Directors by Martin Currie throughout the preceding year, the Directors determined that the Fund outperformed the MSCI Golden Dragon Index for the one-, three-, five- and ten-year periods ending April 30, 2010 (at both net asset value and market price). They further concluded, on the basis of the limited universe of comparable funds, that the expense ratio of the Fund was as low as, or lower than, those of the Fund's direct competitors. Accordingly, the Directors concluded that the performance of the Fund was at least satisfactory.

### **3. The Costs to Martin Currie of its Services and the Profits Realized by Martin Currie from its Relationship with the Fund**

The Directors considered the profitability of the advisory arrangement with the Fund to Martin Currie. The Directors had been provided with general data on the Fund's profitability to Martin Currie. They first discussed with representatives of Martin Currie the methodologies used in computing the costs that formed the bases of the profitability calculations. Concluding that these methodologies were acceptable, they turned to the data provided. After discussion and analysis, they concluded that, to the extent that Martin Currie's relationship with the Fund had been profitable, the profitability was in no case such as to render the advisory fee excessive. The Directors also discussed whether the compensation of Martin Currie personnel was at an appropriate level to retain and motivate employees.

In considering whether Martin Currie benefits in other ways from its relationship with the Fund, the Directors noted that, other than the advisory fees payable to Martin Currie under the Advisory Agreements, there is no other investment advisory, brokerage, or other fee received or receivable by Martin Currie or its affiliates from the Fund. The Directors concluded that, to the extent that Martin Currie derives other benefits from its relationship with the Fund, those benefits are not so significant as to render the adviser's fees excessive.

### **4. The Extent to which Economies of Scale would be Realized if and as the Fund Grows and Whether the Fee Levels in the Listed Management Agreement Reflect these Economies of Scale**

On the basis of their discussions with Martin Currie's management and their analysis of information provided at the Meeting, the Directors determined that the nature of the Fund and its operations is such that Martin Currie was likely to realize economies of scale in the management of the Fund as it grows in size. It was noted in the Board's discussion with representatives of Martin Currie that Martin Currie's assets under management from its China business had increased substantially and as such Martin Currie had realized economies of scale from managing more China portfolios for more clients. It was noted that these economies of scale were shared with the Fund because they had enabled Martin Currie to develop centralized dealing facilities that pool transactions across all of its clients. In addition, the economies were reflected in the breakpoint in the Fund's fee structure.

## **BOARD DELIBERATIONS REGARDING APPROVAL OF INVESTMENT MANAGEMENT AGREEMENTS (continued)**

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In order to better evaluate the Fund's advisory fees, the Directors had requested comparative information with respect to fees paid by similar funds, *i.e.*, public funds that invest in China. The Directors found that, because of the distinctive nature of the Fund, the universe of similar funds was limited; the total number of comparable funds, which included the Fund, was seventeen.

They also noted that there are no other public funds with a dedicated direct investment component that provide a fee comparison. It was noted that the closest comparison would be private equity funds and those funds normally have a base fee of 2% of assets and an incentive based fee based on gains realized on portfolio investments, and thus, the Directors determined that the Direct Investment Management Fee compares favorably with the fees of private equity funds. It was also noted that, while the Direct Investment Management Fee is higher than the fees paid by other public funds, the Listed Investment Management Fee compared favorably with management fees of other similar public funds and the effective combined fees under the Listed Management Agreement and the Direct Management Agreement were lower than the fees for most other similar public funds. The Directors noted that the Fund's total expense ratio was lower than most of the comparable funds' total expense ratios. The Directors concluded that the limited data available provided some indirect confirmation of the reasonableness of Martin Currie's fees.

### **Approval of the Advisory Agreements**

The Directors approved the continuance of the Fund's Advisory Agreements with Martin Currie after weighing the foregoing factors. They reasoned that, considered in themselves, the nature and extent of the services provided by Martin Currie were appropriate, that the performance of the Fund had been at least satisfactory, and that Martin Currie could be expected to provide services of high quality. As to Martin Currie's fees for the Fund, the Directors determined that the fees, considered in relation to the services provided, were fair and reasonable, that the Fund's relationship with Martin Currie was not so profitable as to render the fees excessive, that any additional benefits to Martin Currie were not of a magnitude materially to affect the Directors' deliberations, and that the fees adequately reflected shared economies of scale with the Fund.

## **DIVIDENDS AND DISTRIBUTIONS; SUMMARY OF DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN**

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The Fund will distribute to shareholders, at least annually, substantially all of its net investment income from dividends and interest earnings and expects to distribute any net realized capital gains annually. Pursuant to the Dividend Reinvestment and Cash Purchase Plan (the “Plan”), adopted by the Fund, each shareholder will automatically be a participant (a “Participant”) in the Plan unless Computershare Trust Company, N.A., the Plan Agent, is otherwise instructed by the shareholder in writing, to have all distributions, net of any applicable U.S. withholding tax, paid in cash. Shareholders who do not participate in the Plan will receive all distributions in cash paid by check in U.S. dollars mailed directly to the shareholder by Computershare Trust Company, N.A., as paying agent. Shareholders who do not wish to have distributions automatically reinvested should notify the Fund by contacting Computershare Trust Company, N.A. c/o The China Fund, Inc. at P.O. Box 43078, Providence, Rhode Island 02940-3078, by telephone at 1-800-426-5523 or via the Internet at [www.computershare.com/investor](http://www.computershare.com/investor).

The Plan will operate whenever a dividend or distribution is declared payable only in cash or in cash or shares of the Fund’s common stock, but it will not operate with respect to a dividend or distribution declared payable only in shares of the Fund’s common stock (including such a declaration that provides an option to receive cash).

Computershare Trust Company, N.A (“Computershare” or the “Plan Agent”) act as Plan Agent. If the Directors of the Fund declare an income dividend or a capital gains distribution payable either in the Fund’s Common Stock or in cash, non-participants in the Plan will receive cash and participants in the Plan will receive Common Stock. The shares of common stock issued by the Fund will be valued at net asset value or, if the net asset value is less than 95% of the market price on the valuation date, then shares will be valued at 95% of the market price. If the net asset value per share of the common stock on the valuation date exceeds the market price, participants will be issued shares at market price. The valuation date will be the dividend or distribution payment date or, if that date is not a trading day on the exchange on which the Fund’s shares are then listed, the next preceding trading day. If the Fund should declare a dividend or capital gains distribution payable only in cash, the Plan Agent will, as purchasing agent for the participants, buy shares of common stock in the open market, on the New York Stock Exchange or elsewhere, with the cash in respect of such dividend or distribution, for the participant’s accounts on, or shortly after, the payment date.

Participants in the Plan have the option of making additional payments to the Plan Agent annually, in any amount from \$100 to \$3,000 for investment in the Fund’s Common Stock. The Plan Agent will use all funds received from participants (as well as any dividends and capital gains distributions received in cash) to purchase Fund shares in the open market on January 15 of each year or the next trading day if January 15th is not a trading day. Participants may make voluntary cash payments by sending a check (in U.S. dollars and drawn on a U.S. Bank) made payable to “Computershare” along with a completed transaction form which is attached to each statement a Participant receives. The Plan Agent will not accept cash, traveler’s checks, money orders or third party checks. Any voluntary cash payments received more than thirty-five days prior to such date will be returned by the Plan Agent, and interest will not be paid on any such amounts. To avoid unnecessary cash accumulations, and also to allow ample time for receipt and processing by the Plan Agent, participants should send in voluntary cash payments to be received by the Plan Agent approximately two days before January 15. A participant may withdraw a voluntary cash payment by written notice, if the notice is received by the Plan Agent not less than 48 hours before such payment is to be invested. In the event that a Participant’s check for a voluntary cash payment is returned unpaid for any reason, the Plan Agent will consider the



## **DIVIDENDS AND DISTRIBUTIONS; SUMMARY OF DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN (continued)**

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request for investment of such funds null and void, and shall immediately remove from the Participant's account those shares, if any, purchased upon the prior credit of such funds. The Plan Agent shall be entitled to sell shares to satisfy any uncollected amount plus any applicable fees. If the net proceeds of the sale of such shares are insufficient to satisfy the balance of such uncollected amounts, the Plan Agent shall be entitled to sell such additional shares from the Participant's account as may be necessary to satisfy the uncollected balance.

The Plan Agent will confirm in writing, each trade for a Participant's account and each share deposit or share transfer promptly after the account activity occurs. The statement will show the number of shares held, the number of shares for which dividends are being reinvested, any cash received for purchase of shares, the price per share for any purchases or sales, and any applicable fees for each transaction charged the Participant. In the event the only activity in a Participant's account is the reinvestment of dividends, this activity will be confirmed in a statement on at least a quarterly basis. If the Fund pays an annual dividend and the only activity in a Participant's account for the calendar year is the reinvestment of such dividend, the Participant will receive an annual statement. These statements are a Participant's continuing record of the cost basis of purchases and should be retained for income tax purposes.

The Plan Agent will hold shares of common stock acquired pursuant to the Plan in non-certificated form in the name of the Participant for whom such shares are being held and each Participant's proxy will include those shares of common stock held pursuant to the Plan. The Plan Agent will forward to each Participant any proxy solicitation material received by it. In the case of shareholders, such as banks, brokers or nominees, which hold shares for others who are the beneficial owners, the Plan Agent will administer the Plan on the basis of the number of shares certified from time to time by the shareholder as representing the total amount registered in the name of such Participants and held for the account of beneficial owners who participate in the Plan. Upon a Participant's Internet, telephone or written request, the Plan Agent will deliver to her or him, without charge, a certificate or certificates representing all full shares of common stock held by the Plan Agent pursuant to the Plan for the benefit of such Participant.

Participants will not be charged a fee in connection with the reinvestment of dividends or capital gains distributions. The Plan Agent's transaction fees for the handling of the reinvestment of dividends and distributions will be paid by the Fund. However, Participants will be charged a per share fee (currently \$0.05) incurred with respect to the Plan Agent's open market purchases in connection with the reinvestment of dividends or capital gains distributions and with purchases from voluntary cash payments made by the Participant. A \$2.50 transaction fee and a per share fee of \$0.15 will also be charged by the Plan Agent upon any request for sale. Per share fees include any brokerage commissions the Plan Agent is required to pay.

The automatic reinvestment of dividends and distributions will not relieve participants of any income tax which may be payable on such dividends and distributions. Participants will receive tax information annually for their personal records and to help them prepare their federal income tax return. For further information as to tax consequences of participation in the Plan, Participants should consult with their own tax advisors.

These terms and conditions may be amended or supplemented by the Plan Agent or the Fund at any time or times but, except when necessary or appropriate to comply with applicable law or the rules or policies of the Securities and Exchange Commission or any other regulatory authority, only by mailing to the Shareholders appropriate written



**DIVIDENDS AND DISTRIBUTIONS;  
SUMMARY OF DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN (continued)**

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notice at least 30 days prior to the effective date thereof. The amendment or supplement shall be deemed to be accepted by the Participants unless, prior to the effective date thereof, the Plan Agent receives written notice of the termination of a Participant's account under the Plan. Any such amendment may include an appointment by the Plan Agent in its place and stead of a successor Plan Agent under these terms and conditions, with full power and authority to perform all or any of the acts to be performed by the Plan Agent under these terms and conditions. Upon any such appointment of a successor Plan Agent for the purposes of receiving dividends and distributions, the Fund will be authorized to pay to such successor Plan Agent, for the Participants' accounts, all dividends and distributions payable on the shares of common stock held in the Participants' name or under the Plan for retention or application by such successor Plan Agent as provided in these terms and conditions.

Requests for copies of the Plan, which sets forth all of the terms of the Plan, and all correspondence concerning the Plan should be directed to Computershare Trust Company, N.A., the Plan Agent for The China Fund, Inc., in writing at P.O. Box 43078, Providence, Rhode Island, 02940-3078, by telephone at 1-800-426-5523 or via the Internet at [www.computershare.com/investor](http://www.computershare.com/investor).

## Directors and Officers (Unaudited)

The following table provides information concerning each of the Directors of the Fund. The Board of Directors is comprised of Directors who are not interested persons of the Fund, as that term is defined in Section 2(a)(19) of the Investment Company Act of 1940, as amended. The Directors are divided into three classes, designated as Class I, Class II and Class III. The Directors in each such class are elected for a term of three years to succeed the Directors whose term of office expires. Each Director shall hold office until the expiration of his term and until his successor shall have been elected and qualified.

Name (Age) and Address of Directors or Nominees for Director	Position(s) Held with Fund	Director Since (Term Ends)	Principal Occupation(s) or Employment During Past Five Years	Number of Funds in the Complex (1) Overseen by the Director or Nominee	Other Directorships/ Trusteeships in Publicly Held Companies
James J. Lightburn (67) . . . . . 13, Rue Alphonse de Neuville 75017 Paris, France	Chairman of the Board and Director	1992 (2012)	Attorney, Nomos (law firm) (2004-2006); Attorney, member of Hughes Hubbard & Reed (law firm) (1993-2004).	1	Fromageries Bel S.A.
Michael F. Holland (66) . . . . . 375 Park Avenue New York, New York 10152	Director	1992 (2013)	Chairman, Holland & Company L.L.C. (investment adviser) (1995- present).	1	The Holland Balanced Fund, Inc.; Reaves Utility Income Fund; The Taiwan Fund, Inc.; State Street Master Funds and State Street Institutional Investment Trust
William C. Kirby (60) . . . . . Harvard University CGIS South Building 1730 Cambridge Street Cambridge, MA 02138	Director	2007 (2011)	Director, John K. Fairbank Center for Chinese Studies, Harvard University (2006- present); Chairman, Harvard China Fund (2006-present); Harvard University Distinguished Service Professor (2006- present); Dean of the Faculty of Arts and Sciences Harvard University (2002-2006).	1	
Joe O. Rogers (61) . . . . . 2477 Foxwood Drive Chapel Hill, NC 27514	Director	1992 (2013)	Principal, Rogers International LLC (investment consultation) (July 2001-present).	1	The Taiwan Fund, Inc. (1986-present)
Nigel S. Tulloch (64) . . . . . 7 Circe Circle Dalkeith WA6009 Australia	Director	1992 (2011)	Director, The HSBC China Fund Limited (1992-2005).	1	

(1) The term “Fund Complex” means two or more registered investment companies that share the same investment adviser or principal underwriter or hold themselves out to investors as related companies for the purposes of investment and investor services.

## Directors and Officers (continued) (Unaudited)

### Officers of the Fund

The following table provides information concerning each of the officers of the Fund.

<b>Name (Age) and Address of Officers</b>	<b>Position(s) Held with Fund</b>	<b>Officer Since</b>	<b>Principal Occupation(s) or Employment During Past Five Years</b>
Jamie Skinner (49) . . . . . Martin Currie Investment Management Saltire Court 20 Castle Terrace Edinburgh EH1 2ES Scotland United Kingdom	President	September 2009	Director, Head of Client Services, Martin Currie Investment Management Limited (October 2004-present).
Chris Ruffle (52) . . . . . Martin Currie Investment Advisers Saltire Court 20 Castle Terrace Edinburgh, EH12ES Scotland	Vice President	December 2008	Director, MC China Limited (2006-present); Director, Heartland Capital Management Limited, (2006-present); Director, Martin Currie Investment Management Limited (1995-2006).
Shifeng Ke (45) . . . . . Martin Currie Investment Advisers Saltire Court 20 Castle Terrace Edinburgh, EH12ES Scotland	Vice President	December 2008	Director, MC China Limited, (2006-present); Director, Heartland Capital Management Limited, (2006-present); Director, Martin Currie Investment Management Limited (2004-2006).
Bill Royer (44) . . . . . Foreside Compliance Services, LLC Three Canal Plaza, Suite 100, Portland, ME 04101	Chief Compliance Officer	January 2010	Managing Director, Alternative Investments and Chief Compliance Officer Services, Foreside Compliance Services, LLC (November 2009-present); Acting General Counsel, Baring Asset Management, Inc. (December 2007-May 2008) and General Counsel and Member, Grantham, Mayo, Van Otterloo & Co., LLC (February 1995-March 2005).
Laura F. Healy (46) . . . . . 2 Avenue de Lafayette, Boston, MA 02111	Treasurer	December 2008	Vice President, State Street Bank and Trust Company (July 2007-present); Senior Director, Investors Bank and Trust Company (January 2002-July 2007).
Brian O'Sullivan (36) . . . . . 801 Pennsylvania Ave Kansas City, MO 64105	Assistant Treasurer	March 2009	Vice President, State Street Bank and Trust Company (December 2006-present); Assistant Vice President, State Street Bank and Trust Company (March 2004-December 2006).
Tracie A. Coop (33) . . . . . 4 Copley Place, Boston, MA 02206	Secretary	June 2010	Vice President and Senior Counsel, State Street Bank and Trust Company (October 2007-present); Associate Counsel and Manager, Natixis Asset Management Advisors L.P. (2006-2007); Associate Counsel, Natixis Asset Management Advisors L.P. (2005-2006).
Francine S. Hayes (43) . . . . . 4 Copley Place, Boston, MA 02206	Assistant Secretary	June 2005	Vice President and Managing Counsel, State Street Bank and Trust Company (2004-present); Assistant Vice President and Counsel, State Street Bank and Trust Company (2001-2004).









# **THE CHINA FUND, INC.**

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## **United States Address**

The China Fund, Inc.  
c/o State Street Bank and Trust Company  
2 Avenue de Lafayette  
P.O. Box 5049  
Boston, MA 02206-5049  
1-888-CHN-CALL (246-2255)

## **Directors and Officers**

James J. Lightburn, Chairman of the Board and Director  
Michael F. Holland, Director  
William Kirby, Director  
Joe O. Rogers, Director  
Nigel S. Tulloch, Director  
Jamie Skinner, President  
Chris Ruffle, Vice President  
Shifeng Ke, Vice President  
Bill Royer, Chief Compliance Officer of the Fund  
Laura Healy, Treasurer  
Tracie A. Coop, Secretary  
Brian O'Sullivan, Assistant Treasurer  
Francine Hayes, Assistant Secretary

## **Investment Manager**

Martin Currie Inc.

## **Shareholder Servicing Agent**

The Altman Group

## **Administrator and Custodian**

State Street Bank and Trust Company

## **Transfer Agent, Dividend Paying Agent and Registrar**

Computershare Trust Company, N.A.

## **Independent Registered Public Accounting Firm**

Ernst & Young, LLP

## **Legal Counsel**

Clifford Chance US LLP