



# **iShares Asia Trust**

## **Semi-annual Report**

**28 June 2002**

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Dear Shareholder:

We are pleased to present the unaudited semi-annual report for the iShares Asia Trust. As of 28 June 2002, there is only one sub-fund in the Trust, which is the iShares MSCI China Tracker. This report is the first semi-annual report of the Trust and covers the period from 23 November 2001 through 28 June 2002. This report contains important information about the performance of the iShares MSCI China Tracker, the fund manager's discussion and analysis, as well as other important financial information.

The iShares MSCI China Tracker continues to be an efficient way for non-domestic Chinese investors to gain exposure to the Chinese economy by investing in primarily Red Chips and H-Shares companies listed in Hong Kong. As of 28 June 2002, total asset of the iShares MSCI China Tracker amounted to HK\$291,762,842.63. The number of units outstanding stood at 17,600,000, representing a 25.71% increase from the initial issued units of 14,000,000. The increase in units reflects continuous interests from the investing public in using the iShares MSCI China Tracker as a viable investment vehicle.

During the period under review, the Chinese market accessible to non-domestic Chinese investors (as represented by the MSCI China (HKD) Index) registered a slight decline of -0.54%\*. This compares favourably to losses (in respective original currency terms) of -12.29%, -10.54% and -0.03% registered by the S&P 500, the FTSE 100 and the Nikkei 225, respectively during the same period. More importantly, the iShares MSCI China Tracker proves to be a useful source of diversification to other global equities markets. This fact is clearly of value to international investors in view of the increasingly volatile markets being witnessed globally.

We thank you for your continued support and confidence in the iShares Asia Trust and hope the Trust will continue to meet your investment needs.

Sincerely,

A handwritten signature in black ink, appearing to be 'Joseph Ho', written over a horizontal line.

**Joseph Ho**

Director

Barclays Global Investors North Asia Limited

\* All performance figures refer to the period from the First Trading Day of 28 November 2001 to 28 June 2002.

## INTRODUCTION

The iShares MSCI China Tracker (the “China Tracker”) was launched on 23 November 2001 (the “Initial Offer Period”) and commenced trading under the stock code 2801 on the Stock Exchange of Hong Kong (“SEHK”) on 28 November 2001 (the “First Trading Day”). The China Tracker was established as an index fund authorized by the Securities and Futures Commission and obtained the designation of an exchange-traded fund (“ETF”) from the SEHK. The China Tracker is benchmarked against the MSCI China (HKD) Index (the “Benchmark Index”).

## FUND PERFORMANCE

The China Tracker was launched on 23 November 2001 at the initial offer price of HK\$16.95, which was the same as the Benchmark Index level of 16.95 at the close of the same date. A total of 14,000,000 units were created during the Initial Offer Period. As of the close of the First Trading Day, the NAV (net asset value per unit) of the China Tracker stood at HK\$16.49. An additional 1,200,000 units were created during that day and the number of outstanding units increased to 15,200,000, representing a fund size of HK\$250,672,068. As of the close of 28 June 2002, the NAV of the China Tracker was HK\$16.58 with a total number of 17,600,000 units outstanding, giving the China Tracker a total size of HK\$291,762,843.

A summary of the performance\* of the China Tracker is given below:

	<b>MSCI China (HKD) Index</b>	<b>NAV</b>	<b>Total Outstanding Units</b>	<b>Total Net Asset</b>
28 Nov, 2001	16.53	16.49	15,200,000	250,672,068
28 June, 2002	16.44	16.58	17,600,000	291,762,843
Period Return	-0.54%	0.52%	N/A	16.39%

\* Performance is calculated from the closed of the First Trading Day.

During the period under review, the total size of the China Tracker increased by 16.39%, of which 15.63% was represented by net creations and 1.80% represented by dividend accruals. The resultant performance, which represents the ex-dividends return, of -1.04% was due to market movements. As at 28 June 2002, total dividends accrued amounted to HK\$4,525,454, which was equivalent to HK\$0.26 per unit. Figure 1 below depicts the close resemblance of the China Tracker’s NAV and last traded prices versus the Benchmark Index.

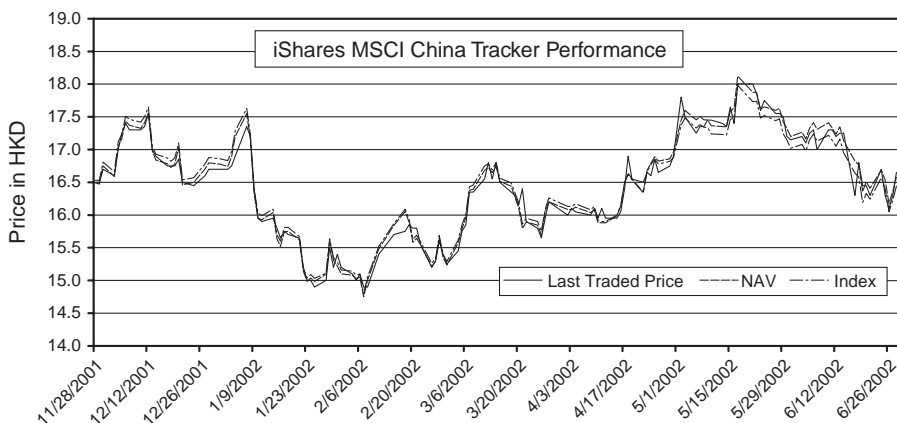


Figure 1

## FUND FACTS

Due to Benchmark Index and regulatory changes, we have issued two addenda to the original prospectus since launch. The first addendum was issued on 14 December 2001 and the second on 17 June 2002.

In the first addendum, we corrected one typographical error in the prospectus (replacement of the word “sufficient” with “insufficient” in the last sentence on page 21) and highlighted that the index compiler, MSCI, changed the MSCI China (HKD) Index tickers to MSCICN and to MXCN on Reuters and Bloomberg, respectively.

In the second addendum, we disclosed that (a) due to the recent merger of Hong Kong Registrars Limited’s share registration business, the Manager has appointed HK Conversion Agency Services Limited as the conversion agent to the China Tracker in place of Hong Kong Registrars Limited with effect from 31 May 2002; (b) as a result of the representative sampling strategy employed by the China Tracker, the Manager has applied for waivers from compliance with Chapter 8.6(h)(i) & (ii) of the Code on Unit Trusts and Mutual Funds. These waivers, granted on 22 May 2002 by the SFC, permit the China Tracker to hold overweighted positions relative to their respective weightings in the Benchmark Index.

## FUND ACTIVITIES

The average daily trading volume for the China Tracker during the period under review was reported by Bloomberg to be 222,014 shares. We believed such daily volume to be satisfactory in view of the relative size of the China Tracker. From experience, trading volume of ETFs tends to grow over time. More importantly, as seen in Figure 1, the last traded prices and the NAVs of the China Tracker were very close, indicating efficient market making support performed by the two market makers: Morgan Stanley Dean Witter Hong Kong Securities Limited and Salomon Smith Barney Hong Kong Limited.

As far as the primary market is concerned, there were 5 creations and 2 redemptions recorded since launch. The details of which are given as follows:

<b>Date of Order</b>	<b>Units Created/(Redeemed)</b>
28 November 2001	1,200,000
13 March 2002	1,400,000
14 March 2002	600,000
25 March 2002	1,000,000
2 May 2002	3,600,000
18 June 2002	(1,400,000)
25 June 2002	(4,000,000)

## INDEX ACTIVITIES

In December 2000, MSCI announced a major methodology change to its global equities indices. This involved an increase of market coverage by the indices from 60% to 85% and free-float adjustment to all index constituents. The transition was carried out in two phases. The Phase I transition happened on 30 November 2001 and the Phase II transition took place on 31 May 2002. At the same time, MSCI published a set of provisional indices to facilitate the transition for investors. Details of the timeline and methodology changes can be found on the MSCI website at [www.msci.com](http://www.msci.com).

## MARKET REVIEW

During the past seven months, global equity markets exhibited both volatile and divergent behaviors. The Asian markets, especially that of Korea and to a lesser extent Taiwan, enjoyed a general resurgence reaping rewards of some hard measures taken during the Asian Financial Crisis. Both the MSCI EMF Asia Index and the MSCI Pacific Index outperformed the MSCI World Index by more than 25% and 10%, respectively, in absolute terms. In the US, investor confidence was sapped by corporate scandals involving some of the largest companies, including Enron and WorldCom, and slowing corporate earning forecasts. The continuous threat of terrorist attacks and tension in the Middle East further compromised the performance of the US and other major world markets. The S&P 500 Index resulted in a decline of -12.29% over this period.

In Hong Kong, the economy continued to struggle with structural issues like rising unemployment and deflation. Unemployment rate soared to a record high of 7.4% in May 2002 while CPI contracted by more than 2% over the seven-month period. The Hang Seng Index fell by 4.23% with the Commerce & Industry sector being the worst performing sector. The TMT (Technology, Media and Telecommunications) sector was also under pressure as evidenced by the poor performance of China Mobile (941 HK, -14.29%), the largest constituent stock in the MSCI China Index during the period under review.

In comparison, the H-Shares, which represent Chinese State-owned enterprises whose shares trade in Hong Kong, showed relative resilience due to solid performance in the petrochemical, power, and airline sectors. The Red Chips, which are shares of Hong Kong domiciled companies majority-owned by Mainland Chinese and derived most of their revenues from operations in the PRC, showed very mixed results. Both the best and the worst performers in the benchmark index during this period were Red Chips companies. The best performer was TCL (1070 HK), which led the pack with a phenomenal return of +77.4% during the period under review. On the contrary, Brilliance China Automotive (1114 HK) emerged as the worst performing stock whose share price registered a decline of -32.48% due to the sudden replacement of its chairman. In aggregate, the MSCI China (HKD) Index recorded a relatively minor decline of -0.54%.

Looking ahead, we expect to see continued volatilities in the global market place. Development in the US market would have great impacts on other major markets. On the contrary, the Chinese economy remains relatively insulated and continues to grow at a brisk pace at over 7% per annum. As such, we believe the China Tracker remains a viable diversification tool for many investors, local or foreign.

# iShares MSCI China Tracker

## Statement of Assets & Liabilities

As at 28 June 2002 (Unaudited)

	28 June 2002
	HKD
ASSETS	
Investments	289,244,120.00
Amounts due from broker	4,153,626.04
Dividends and interest receivable	524,239.22
Cash at banks	2,625,299.43
Total assets	<u>296,547,284.69</u>
LIABILITIES	
Amounts due to broker	3,888,071.43
Other accounts payable and accrued expenses	896,370.63
Total liabilities	<u>4,784,442.06</u>
Net assets	<u>291,762,842.63</u>
Number of units in issue	<u>17,600,000.00</u>
Net asset value per unit	<u>16.58</u>



# iShares MSCI China Tracker

## Statement of Operations

For the period from 23 November 2001 to 28 June 2002 (Unaudited)

	28 June 2002 HKD
INCOME	
Interest income	1,252.65
Dividend income	4,525,454.49
	<u>4,526,707.14</u>
EXPENSES	
Bank charges	20,012.03
Management fee	1,800,311.53
Transaction handling fee	25,154.61
	<u>1,845,478.17</u>
Net income before investment and exchange gain	<u>2,681,228.97</u>
Net realised loss on sale of investments	(2,826,345.55)
Net unrealised decrease in value of investments	(7,950,888.59)
Net exchange gain	847.80
	<u>(10,776,386.34)</u>
Net loss for the period transferred to the capital account	<u><u>(8,095,157.37)</u></u>

# iShares MSCI China Tracker

## Statement of Movements in Capital Account

For the period from 23 November 2001 to 28 June 2002 (Unaudited)

	28 June 2002
	HKD
Balance brought forward	—
Proceeds on issue of units	389,442,000.00
Payments on redemption of units	(89,584,000.00)
	<u>299,858,000.00</u>
Net loss for the period	(8,095,157.37)
Value of fund carried forward	<u><u>291,762,842.63</u></u>

# iShares MSCI China Tracker

## Cash Flow Statement

For the period from 23 November 2001 to 28 June 2002 (Unaudited)

	28 June 2002 HKD
Net loss for the period	2,681,228.97
(Increase)/decrease in amounts due from brokers	(4,153,626.04)
(Increase)/decrease in other receivables	(524,239.22)
Increase/(decrease) in amounts due to brokers	3,888,071.43
Increase/(decrease) in accruals and other payables	896,370.63
Cash inflow from operating activities	<u>2,787,805.77</u>
 <b>INVESTING ACTIVITIES</b>	
Purchases of investments	(449,181,877.64)
Proceeds on disposals of investments	149,160,523.50
Net exchange gain	847.80
Cash outflow from investing activities	<u>(300,020,506.34)</u>
 <b>FINANCING ACTIVITIES</b>	
Proceeds from the issue of shares	389,442,000.00
Payments on redemption of shares	(89,584,000.00)
Cash inflow from financing activities	<u>299,858,000.00</u>
Increase in cash and cash equivalents	2,625,299.43
Cash and cash equivalents at the beginning of the period	<u>0.00</u>
Cash and cash equivalents as at 28 June 2002	<u><u>2,625,299.43</u></u>
 <b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>	
Cash at bank	<u><u>2,625,299.43</u></u>

# iShares MSCI China Tracker

## Investment Portfolio

As at 28 June 2002 (Unaudited)

Holding	Listed/Quoted Investments	MARKET VALUE HKD	% of net asset
	Equities		
	CHINA (25.49%)		
352,000	Beijing Enterprises Holdings Ltd	3,132,800.00	1.07
9,680,000	China Petroleum & Chemical Corporation (Sinopec)-H	13,455,200.00	4.61
1,232,000	China Shipping Development Co Ltd-H	2,069,760.00	0.71
1,760,000	China Southern Airlines Company-H	5,588,000.00	1.92
1,408,000	Guangshen Railway Co Ltd H Shrs Ord Cny1	2,083,840.00	0.71
1,936,000	Huaneng Power Intl Inc -H	12,390,400.00	4.25
1,232,000	Jiangsu Expressway Co Ltd H Shrs Ord Cny1	2,618,000.00	0.90
13,552,000	Petrochina Co Ltd-H Shares	22,496,320.00	7.71
1,232,000	Qingling Motors Co Ltd H Shrs Ord Cny1	1,330,560.00	0.46
1,584,000	Sinopec Yizheng Chemical Fibre Co Ltd H Shrs Ord Cny1	1,916,640.00	0.66
1,232,000	Yanzhou Coal Mining Co Ltd H Shrs Ord Cny1	3,542,000.00	1.21
1,408,000	Zhejiang Expressway Co Ltd H Shrs Ord Cny1	3,731,200.00	1.28
	<b>TOTAL CHINA</b>	<b>74,354,720.00</b>	<b>25.49</b>
	HONG KONG (73.65%)		
1,760,000	Beijing Datang Power Generation Co Ltd H Shrs Ord Cny1	6,116,000.00	2.10
1,936,000	Brilliance China Automotive Holding Limited	2,052,160.00	0.70
880,000	China Everbright Ltd Ord Hkd1	3,784,000.00	1.30
1,056,000	China Merchants Hldgs Intl Co Ltd Ord Hk0.01	6,336,000.00	2.17
4,752,000	China Mobile (Hong Kong) Limited	109,771,200.00	37.62
2,464,000	China Overseas Land & Investment Ltd Ord Hkd0.1	2,168,320.00	0.74
1,056,000	China Resources Land Limited Ord Hkd0.1	1,562,880.00	0.54
1,056,000	China Resources Enterprise Ltd	9,662,400.00	3.31
1,936,000	China Travel Intl Inv Hk Ltd	2,826,560.00	0.97
1,056,000	Citic Pacific Limited	17,846,400.00	6.12
1,716,000	Cnooc Ltd Ord Hkd0.1	17,932,200.00	6.15
1,056,000	Cosco Pacific Limited	6,547,200.00	2.24
1,936,000	Denway Motors Limited	4,259,200.00	1.46
3,168,000	Legend Group Ltd Ord Hkd0.025	9,028,800.00	3.09
440,000	Shanghai Industrial Hldgs Ltd Ord Hkd0.1	6,622,000.00	2.27
880,000	Shenzhen Investment Limited Ord Hkd0.1	2,376,000.00	0.81
3,168,000	Sinopec Shanghai Petrochemical Co Ltd-H	3,674,880.00	1.26
1,056,000	TCL International Holdings Limited	2,323,200.00	0.80
	<b>TOTAL HONG KONG</b>	<b>214,889,400.00</b>	<b>73.65</b>
	<b>TOTAL INVESTMENTS</b>	<b>289,244,120.00</b>	<b>99.14</b>
	<b>NET OTHER ASSETS</b>	<b>2,518,722.63</b>	<b>0.86</b>
	<b>NET ASSET AT 28 JUNE 2002</b>	<b>291,762,842.63</b>	<b>100.00</b>

# Notes to the Financial Statements

## 1. DESCRIPTION OF THE CHINA TRACKER

The China Tracker is authorised by the Securities and Futures Commission (the “SFC”) in Hong Kong pursuant to section 15 of the Securities Ordinance under iShares Asia Trust (the “Trust”), an umbrella unit trust created by a trust deed (the “Trust Deed”) dated 16 November 2001.

The China Tracker seeks to provide investment results that closely correspond with the performance of the MSCI China (HKD) Index.

## 2. ACCOUNTING POLICIES

### Presentation of Financial Statements

The financial statements are presented in accordance with general accepted accounting principles in Hong Kong and comply with the accounting standards issued by Hong Kong Society of Accountants.

#### a. Valuation of Investments

The Net Asset Value of the China Tracker is determined as at the close of trading on the SEHK each Dealing Day by valuing the assets of the portfolio and deducting the liabilities, in accordance with the terms of the Trust Deed. All purchases and sales of securities are traded in Hong Kong Dollar and they are accounted for on a trade date basis. The reporting currency of the China Tracker is also in Hong Kong Dollar.

All calculations based on the value of investments quoted, listed, traded or dealt in on any securities market shall be made by reference to the price appearing to the Manager to be the last traded price on the market for such investments provided that the Manager and the Trustee shall be entitled to use and rely on electronic price feeds from such source or sources as they may from time to time determine, notwithstanding that the prices so used are not the last traded prices.

Cash, deposits and similar investments shall be valued at their face value (together with accrued interest), unless, in the opinion of the Manager, any adjustment should be made to reflect the value.

# Notes to the Financial Statements (continued)

## 2. ACCOUNTING POLICIES (continued)

### b. Treatment of Dividend and Interest Income

Dividend income is recognized on the ex-dividend date, and interest income is accrued daily.

### c. Foreign Currency Transactions

Any dividends received in foreign currency are converted into Hong Kong Dollar at the prevailing rates of exchange on the valuation date.

### d. Expenses

All expenses are accounted for on an accrual basis.

### e. Taxation

Any profits of the China Tracker arising from the sale or disposal of securities, net investment income received by or accruing to the Trust and other profits of the Trust are exempt from Hong Kong profits tax. No Hong Kong stamp duty is payable by the fund on an issue or redemption of Units.

The sale and purchase of Hong Kong stocks by the Trust will be subject to stamp duty in Hong Kong.

## 3. TRANSACTIONS WITH CONNECTED PERSONS

The Manager did not enter into any transactions that are outside the ordinary course of business or not on normal commercial terms between the China Tracker, the Manager or its Connected Persons during the period. The Management Fee is the only transaction that the China Tracker has entered into with the Manager or its Connected Persons.

### Management Fee

The Manager is entitled to a management fee at the rate of 0.99% p.a. on the Net Asset Value of the China Tracker accrued daily and calculated as at each Dealing Day.

## Notes to the Financial Statements (continued)

### 4. SOFT DOLLAR BENEFITS

Any cash commissions received by the Manager or any appointed investment adviser or any of their Connected Persons arising out of the sale and purchase of investments for the Trust will not be retained for their own use but will be credited to the China Tracker. However, the Manager, any appointed investment adviser and any of their Connected Persons may receive, and are entitled to retain, goods and services and other soft dollar benefits which are of demonstrable benefit to the unitholders of the China Tracker (as may be permitted under relevant regulations including, but not limited to, the Code on Unit Trusts and Mutual Funds) from brokers and other persons through whom the investment transactions are carried out. These goods and services include, but are not limited to, qualifying research services, computer hardware and software obtained to enhance investment decision making, and appropriate order execution services.

### 5. BORROWING

The Trustee may at the request of the Manager borrow for the account any currency for the following purposes:-

- facilitating the creation or redemption of Units or defraying operating expenses;
- enabling the Manager to acquire Securities for the account of the China Tracker;
- for any other proper purpose as may be agreed by the Manager and the Trustee.

The assets of the China Tracker may be charged or pledged to secure such borrowing for the account. No borrowings have been carried out by the Manager since inception of the China Tracker.