



iShares Asia Trust

Annual Report

**For the period from 16th November 2001
(Date of Trust Deed) to 31st December 2002**

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Letter to the Unitholders

Dear Unitholders:

We are pleased to present the first annual report and audited financial statements for the iShares Asia Trust (the "Trust") that cover the period from 16th November 2001 (date of Trust Deed) to 31st December 2002. This report contains important information about the performance of the iShare MSCI China Tracker (the "Fund"), the only sub fund of the iShares Asia Trust, the Fund Manager's discussion and analysis, as well as other important financial information.

The Fund 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. The Fund was launched on 23rd November 2001 and first traded on the Stock Exchange of Hong Kong on 28th November 2001 (the "First Trading Date"). As of 31st December 2002, total asset of the Fund amounted to HK\$272,344,383. The number of units outstanding stood at 19,200,000, representing a 26.32% increase from the outstanding units of 15,200,000 as of 28th November 2001. The increase in units reflects continuous interests from the investing public in using the Fund as a viable investment vehicle.

The period from 28th November 2001 to 31st December 2002 proved to be a difficult period for the global equity markets. During this period, the S&P 500, the FTSE 100 and the Nikkei 225 registered losses (in respective original currency terms) of 22.08%*, 25.06% and 19.26%, respectively. Yet the Chinese market accessible to non-domestic Chinese investors (as represented by the MSCI China (HKD) Index) registered a more moderate decline of 14.46% during the same period. Once again, the Fund 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 Trust and hope the Fund will continue to meet your investment needs.

Sincerely,



Joseph Ho

Director

Barclays Global Investors North Asia Limited

* All performance figures in the rest of this report refer to the period from the First Trading Day of 28th November 2001 to 31st December 2002 unless otherwise stated.

Report of the Manager to the Unitholders

INTRODUCTION

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

FUND PERFORMANCE

The Fund seeks to provide investment results that closely correspond with the performance of the Benchmark Index. As of the close of 31st December 2002, the NAV per unit of the Fund stood at HK\$14.18 with a total number of 19,200,000 units outstanding, giving the Fund a total size of HK\$272,344,383.

A summary of the performance of the Fund is given below:

	MSCI China Index	NAV	Total Outstanding Units	Total Net Asset
28th November 2001	16.53	16.49	15,200,000	250,672,068
31st December 2002	14.14	14.18	19,200,000	272,344,383
Period Return	-14.46%	-14.01%	N/A	N/A

During the period from 28th November 2001 to 31st December 2002 the total size of the Fund increased by 8.65%. Whilst the Benchmark Index returned a loss of 14.46%, the Fund recorded a slight outperformance returning a decline of 14.01%. In addition, the Fund distributed a total of HK\$4,416,000 of income, which was equivalent to HK\$0.23 per unit on 17th December 2002. Figure 1 below depicts the close resemblance of the Fund’s NAV and last traded prices versus the Benchmark Index.

Report of the Manager to the Unitholders (continued)

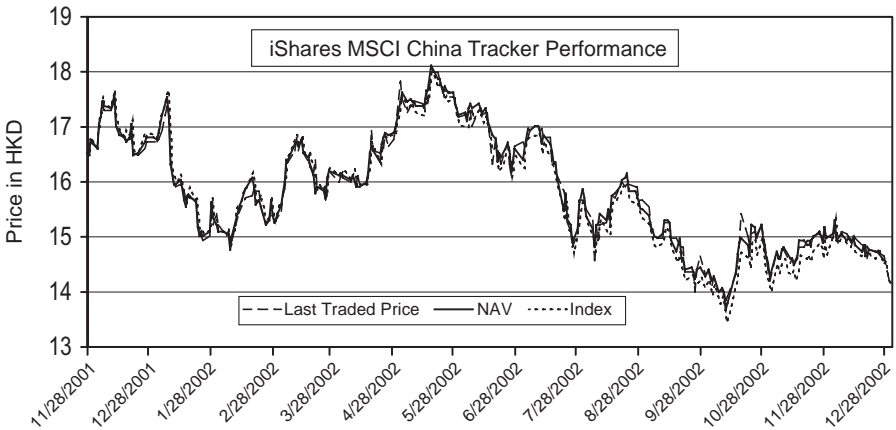


Figure 1

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 14th December 2001 and the second on 17th 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 Trust in place of Hong Kong Registrars Limited with effect from 31st May 2002; (b) as a result of the representative sampling strategy employed by the Fund, 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 22nd May 2002 by the SFC, permit the Fund to hold overweighed positions relative to their respective weightings in the Benchmark Index.

FUND ACTIVITIES

The average daily trading volume for the Fund during the period under review was reported by Bloomberg to be 165,084 units. We believed such daily volume to be satisfactory in view of the relative size of the Fund. From experience, trading volume of ETFs tend to grow over time. More importantly, as seen in Figure 1, the last traded prices and the net asset values of the Fund were very close, indicating relatively 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.

Report of the Manager to the Unitholders (continued)

FUND ACTIVITIES (continued)

As far as the primary market is concerned, there were 7 creations and 2 redemptions recorded since the launch of the Fund. The details of which are given as follows:

Date of Order	Units Created/(Redeemed)
23rd November 2001	15,200,000
28th November 2001	1,200,000
13th March 2002	1,400,000
14th March 2002	600,000
25th March 2002	1,000,000
2nd May 2002	3,600,000
18th June 2002	(1,400,000)
25th June 2002	(4,000,000)
18th October 2002	1,600,000

On 18th November 2002, the Fund announced that the final distribution of the annual dividend payment per unit of HK\$0.23. The ex-dividend date was 2nd December 2002 and the record date was 3rd December 2002. The payable date of the dividend was on 17th December 2002.

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 30th November 2001 and the Phase II transition took place on 31st May 2002.

As of the close of 1st July 2002, MSCI increased the benchmark shares of China Mobile Hong Kong Ltd (stock code: 941) to 19,669,548,658 shares as a result of new shares issued for funding its acquisition activities.

During the quarterly review in August 2002, MSCI decided to add Aluminum Corporation of China Ltd (stock code: 2600) with 2,749,890,000 shares outstanding and a Foreign Inclusion Factor ("FIF") of 0.7 effective the close of 30th August 2002.

Lastly, China Telecom Corporation Ltd (stock code: 728) was listed on the Stock Exchange on 14th November 2002 and was added to the Benchmark Index as of the close of 29th November 2002 with 7,556,400,000 shares and a FIF of 1.

MARKET REVIEW

The period of 28th November 2001 to 31st December 2002 provided ample challenges for the global equity markets. During this period, 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

Report of the Manager to the Unitholders (continued)

MARKET REVIEW (continued)

MSCI World Index by more than 18.72% and 6.21%, respectively, in absolute terms. In the US, investor confidence was sapped by corporate scandals involving some of the largest companies and slowing corporate earning forecasts. A potential war with Iraq and North Korea's resumption of its nuclear program further dampened investment sentiments despite improving economic indicators. The S&P 500 Index resulted in a decline of 22.08% over this period.

In Hong Kong, the economy continued to struggle with structural issues like rising unemployment and deflation. Nevertheless, few hints of recovery were seen near the end of the year thanks to robust tourist arrival and re-export growth. Unemployment rate soared to a record high of 7.8% in July 2002 but improved slightly to 7.2% at the end of the period. Moreover, CPI contracted by more than 3.9% during the period.

However, the local equity market showed sharp divergent behaviors. The Hang Seng Index registered a fall of 15.77% over this period whilst the Red Chips, as measured by the Hang Seng China Affiliated Corporation Index, lost 23.33%. China Mobile (stock code: 941), the largest constituent stock in both the MSCI China (HKD) Index and the Red Chips index went down 31.17% due to intensified competition in the mainland TMT (Technology, Media and Telecommunication) market. In contrast, the Hang Seng China Enterprise Index, which represents Chinese State-owned enterprises whose shares trade in Hong Kong (H-Shares), surged 11.89% due to solid performance in the petrochemical, power, and airline sectors. The Benchmark Index, which is composed of both H-Shares and Red Chips, resulted in a negative return of 14.46% as a result.

Looking ahead, we expect to see continued volatilities in the global marketplace. Development in the US market and the threats of war 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 Fund remains a viable diversification tool for many investors, local or foreign.

Report of the Trustee to the Unitholders

We hereby confirm that, in our opinion, the Manager of the iShares Asia Trust (the "Trust") has, in all material respects, managed the Trust in accordance with the provisions of the Trust Deed dated 16th November 2001 for the period from 16th November 2001 to 31st December 2002.

Bermuda Trust (Far East) Limited

27 March 2003

Statement of Responsibilities of the Manager and the Trustee

MANAGER'S RESPONSIBILITIES

The Manager of iShares Asia Trust (the "Trust") is required by the Code on Unit Trusts and Mutual Funds established by the Securities & Futures Commission of Hong Kong and the Trust Deed dated 16th November 2001 to prepare financial statements for each annual accounting year which give a true and fair view of the financial position of the Trust at the end of that year and of the transactions for the year then ended. In preparing these financial statements the Manager is required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are prudent and reasonable; and
- prepare the financial statements on the basis that the Trust will continue in operation unless it is inappropriate to presume this.

The Manager is also required to manage the Trust in accordance with the Trust Deed and takes reasonable steps for the prevention and detection of fraud and other irregularities. As of 31st December 2002, the iShares MSCI China Tracker (the "Fund") is the only fund established in the Trust.

In valuing listed investment securities, the Manager has adopted last traded prices quoted on the principal stock exchanges at the close of the business on the valuation day. This valuation basis is not in compliance with International Accounting Standard 39 – Financial Instruments: Recognition and Measurement, which requires listed investment securities to be valued based on quoted bid prices. This decision of using last traded prices was based on the Fund's nature as an index fund and the unique creation/redemption mechanism of exchange-traded funds.

The Manager's decision to use last traded prices for calculation of net asset value is based upon:

Unlike ordinary mutual funds, the Fund employs an in-kind creation/redemption process where a basket of securities is delivered into or out of the Fund for creation and redemption, respectively. As such, the use of last traded prices is neutral to both creation and redemption.

The Fund is primarily an index fund that seeks to track the performance of the MSCI China (HKD) Index which uses last traded prices when calculating the index level. Any attempt to use quoted bid prices for net asset value calculations would lead to tracking differences. This will create confusion among investors regarding the performance of the Fund and the Manager's ability to track the Benchmark Index.

Moreover, since most investors rely on the secondary market trading to exit the Fund and not through redemption, an accurate reflection of the true value of the Fund versus the Benchmark Index is necessary to allow effective arbitrage actions taken by Authorized Participants to keep the trading prices close to the Fund's net asset value. Calculating the Fund's net asset value based on quoted bid prices will give the false impression that the Fund is trading at a discount to the Benchmark Index. Less well-informed investors may mistakenly decide to take advantage of this "discount" leading to trading losses.

Statement of Responsibilities of the Manager and the Trustee (continued)

MANAGER'S RESPONSIBILITIES (continued)

Most importantly, the Trustee and the Manager have considered the impact of the different bases adopted by the Fund on the Fund's net asset value and consider that as the amount resulting from the different bases adopted is not significant to the Fund's net asset value, no adjustment needed to be made as at the balance sheet date.

TRUSTEE'S RESPONSIBILITIES

The Trustee of the Trust is required to:

- ensure that the Trust is managed by the Manager in accordance with the Trust Deed and that the investment and borrowing powers are complied with;
- satisfy itself that sufficient accounting and other records have been maintained;
- safeguard the property of the Trust and rights attaching thereto; and
- report to the Unitholders for each annual accounting year on the conduct of the Manager in the management of the Trust.

Report of the Auditors to the Unitholders

We have audited the accompanying statement of assets and liabilities of iShares Asia Trust (the “Trust”) as of 31st December 2002 and the related statement of operations, statement of changes in capital and statement of cash flows for the period from 16th November 2001 (date of Trust Deed) to 31st December 2002. These financial statements set out on pages 10 to 20 are the responsibility of the Manager. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Manager, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements give a true and fair view of the disposition of the Trust as of 31st December 2002 and of the results of its operations, its changes in capital and its cash flows for the period from 16th November 2001 (date of Trust Deed) to 31st December 2002 and are prepared in accordance with International Accounting Standards and the relevant disclosure provisions of the Trust Deed dated 16th November 2001 and of the Code on Unit Trusts and Mutual Funds established by the Securities & Futures Commission of Hong Kong.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 27 March 2003

Statement of Assets and Liabilities

As at 31st December 2002

	Note	HK\$
ASSETS		
Available-for-sale securities		272,050,080
Bank balances	5(c)	895,753
Total assets		<u>272,945,833</u>
LIABILITIES		
Management fee payable		601,450
Total liabilities		<u>601,450</u>
Net assets		<u>272,344,383</u>
Financed by:		
Capital account		<u>272,344,383</u>
Units in issue	4	<u>19,200,000</u>
Net asset value per unit		<u>14.18</u>

Approved by the Trustee and the Manager on 27 March 2003

Bermuda Trust (Far East) Limited

Barclays Global Investors North Asia Limited

Statement of Operations

For the period from 16th November 2001 (Date of Trust Deed)
to 31st December 2002

	Note	HK\$
INCOME		
Dividend income		7,437,065
Interest income	5(c)	4,066
		<u>7,441,131</u>
EXPENSES		
Management fee	5(a)	(3,189,604)
Transaction handling fee	5(b)	(36,853)
Bank charges	5(b)	(38,381)
		<u>(3,264,838)</u>
Net operating income		<u>4,176,293</u>
NET INVESTMENT AND EXCHANGE GAIN/(LOSS)		
Net realised loss on sale of available-for-sale securities		(5,542,790)
Net unrealised loss on revaluation of available-for-sale securities		(45,700,198)
Exchange gains		1,078
		<u>(51,241,910)</u>
Net loss for the period		(47,065,617)
Amount transferred to the statement of distribution		(4,416,000)
Amount transferred from the capital account		51,481,617
		<u><u>-</u></u>

Statement of Changes in Capital

For the period from 16th November 2001 (Date of Trust Deed)
to 31st December 2002

	Note	HK\$
Balance at the beginning of the period		–
Proceeds on issue of units for cash	6	1,174,600
Payments on redemption of units for cash	6	(1,056,455)
In-kind proceeds on issue of units	6	412,235,400
In-kind payments on redemption of units	6	(88,527,545)
		<hr/>
		323,826,000
Amount transferred to the statement of operations		(51,481,617)
		<hr/>
Balance at the end of the period		<u>272,344,383</u>

Statement of Cash Flows

For the period from 16th November 2001 (Date of Trust Deed)
to 31st December 2002

	Note	HK\$
Net income available for distribution		4,176,293
Exchange gains		1,078
Increase in management fee payable		601,450
Net cash inflow from operating activities		4,778,821
INVESTING ACTIVITIES		
Purchase of available-for-sale securities	6	(75,758,627)
Sale of available-for-sale securities	6	76,173,414
Net cash inflow from investing activities		414,787
FINANCING ACTIVITIES		
Cash component received on issue of units	6	1,174,600
Cash component paid on redemption of units	6	(1,056,455)
Final distribution paid		(4,416,000)
Net cash outflow from financing activities		(4,297,855)
Increase in cash and cash equivalents		895,753
Cash and cash equivalents at the beginning of the period		–
Cash and cash equivalents at the end of the period		895,753
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances		895,753

Please refer to note 6 to the financial statements for details of major non-cash transactions.

Statement of Distribution

For the period from 16th November 2001 (Date of Trust Deed)
to 31st December 2002

	HK\$
Amount transferred from the statement of operations	4,416,000
Final distribution	
– HK\$0.23 on 19,200,000 units paid on 17th December 2002	(4,416,000)
	–

Notes to Financial Statements

1 THE TRUST

iShares Asia Trust (the “Trust”), is an umbrella unit trust governed by its trust deed dated 16th November 2001 and authorised by the Securities & Futures Commission of Hong Kong (the “SFC”) pursuant to Section 15 of the Securities Ordinance. As of 31st December 2002, the iShares MSCI China Tracker (the “Fund”) is the only fund established in the Trust. The Fund is listed on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (a subsidiary of The Hong Kong Exchanges and Clearing Limited).

The Trust has no employees.

2 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Basis of Presentation

The financial statements are presented in accordance with and comply with International Accounting Standards (“IAS”) issued by the International Accounting Standards Committee. The financial statements have been prepared under the historical cost convention as modified by the fair valuation of available-for-sale securities.

(b) Available-for-sale Securities

Under International Accounting Standard 39 – Financial Instruments: Recognition and Measurement (“IAS 39”), the Trust classified its investment securities, which comprise equity investments, as available-for-sale securities. Such investments are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity, or changes in interest rates, exchange rates or equity prices. The Manager determines the appropriate classification of its investments at the time of purchase and re-evaluates such designation on a regular basis.

Available-for-sale securities consist of principally listed securities and are initially recognised at cost (which includes transaction costs) and subsequently re-measured at fair value based on the last traded price quoted on the principal stock exchanges at the close of the business on the valuation day. This valuation basis is not in compliance with IAS 39, which requires listed investment securities to be valued based on quoted bid prices. The Trustee and the Manager have considered the reasons behind the decision and the impact of the different bases adopted by the Trust on the Trust’s net asset value and consider that as the amount resulting from the different bases adopted is not significant to the Trust’s net asset value, no adjustment needed to be made as at the balance sheet date.

Notes to Financial Statements (continued)

2 PRINCIPAL ACCOUNTING POLICIES (continued)

(b) Available-for-sale Securities (continued)

Refer to note 8 for details of the impact of adopting a different basis of valuation on the Trust's net asset value.

Purchases and sales of investments are accounted for on trade dates. Realised and unrealised gains and losses on available-for-sale securities are recognised in the statement of operations as they arise.

(c) Dividend and Bank Interest Income

Dividend income on quoted equity securities is recognized on the ex-dividend date. Dividend income on equity securities where no ex-dividend date is quoted is recognised when the Trust's right to receive payment is established.

Interest income on bank balances is recognised on a time proportion basis, taking into account the principal amounts outstanding and interest rate applicable.

(d) Expenses

Expenses are accounted for on an accrual basis. Expenses are charged to the statement of operations except for expenses incurred on the acquisition of an investment which are included within the cost of that investment. Expenses arising on the disposal of investments are deducted from the disposal proceeds.

(e) Translation of Foreign Currencies

Transactions in foreign currencies during the period are translated into Hong Kong Dollars (HK\$) at exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into HK\$ at exchange rates ruling at period end. Translation differences arising there from are dealt with in the statement of operations.

(f) Cash and Cash Equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant changes in value.

(g) Segmental Information

In the opinion of the Manager, all activities of the Trust are in the single business of investment activities conducted mainly in Hong Kong. Geographical information is provided in the investment portfolio.

Notes to Financial Statements (continued)

3 TAXATION

No provision for Hong Kong profits tax has been made as the bank interest, dividend income and realised gains on disposal of investments of the Trust are excluded from the charge to profits tax under either Section 14, Section 26 or Section 26A of the Hong Kong Inland Revenue Ordinance.

4 UNITS IN ISSUE

	Number of units
Units in issue at the beginning of the period	–
Issue of units	24,600,000
Redemption of units	(5,400,000)
Units in issue at the end of the period	<u>19,200,000</u>

5 TRANSACTIONS WITH THE MANAGER AND ITS CONNECTED PERSONS

Connected Persons of the Manager are those as defined in the Code on Unit Trusts and Mutual Funds established by the Securities & Futures Commission of Hong Kong (the “SFC Code”). All transactions entered into during the period between the Trust and the Manager and its Connected Persons were carried out in the normal course of business and on normal commercial terms. To the best of the Manager’s knowledge, the Trust does not have any other transactions with Connected Persons except for what is disclosed below.

(a) Management Fee

The Manager is entitled to receive a management fee, currently at the annual rate of 0.99% of the net asset value of the Fund accrued daily and calculated as at each dealing day and payable quarterly in arrears.

Apart from the fees and expenses stated in note 5(b) below, all other fees and expenses of the Trust are paid by the Manager.

(b) Fees and Charges Paid to the Trustee/Custodian and its Connected Persons

The Custodian receives a transaction handling fee for the sale and purchase transactions of the available-for-sale securities from the Fund at US\$75 each. Bank charges stated in the statement of operations are also paid by the Trust to a Connected Person of the Custodian.

All other fees payable to the Custodian and its Connected Persons are borne by the Manager.

Notes to Financial Statements (continued)

5 TRANSACTIONS WITH THE MANAGER AND ITS CONNECTED PERSONS (continued)

(c) Bank Balances

Bank balances are maintained with an affiliated company of the Trustee. Bank balances held with this affiliated company of the Trustee as at 31st December 2002 was HK\$895,753. During the period, interest earned on the above bank balances was HK\$4,066.

6 MAJOR NON-CASH TRANSACTIONS

Subscriptions

In accordance with the Trust Deed, units can be issued through either subscription or an in kind creation of an Application Unit. In the latter case, for each Application Unit, the Fund receives an Application Basket consisting of constituent shares as determined by the Manager on a daily basis and a cash amount equivalent to a cash component. Relevant duties and charges are paid by the participating dealers directly to the Trustee and are therefore not reflected in the financial statements. Cash component represents the difference between the aggregate net asset value of the units comprising an Application Unit and the Application Basket Value.

During the period, all units issued were through in kind creation and the Fund issued 24,600,000 units in exchange for Application Baskets consisting of investments valued at a total of HK\$412,235,400 by the Manager at the time of issue plus the cash component equal to HK\$1,174,600.

Redemptions

In accordance with the Trust Deed, units can only be redeemed in kind and are not redeemable for cash. For each Application Unit redeemed, the Fund pays an Application Basket consisting of constituent shares as determined by the Manager on a daily basis and a cash amount equivalent to a cash component as defined above. Relevant duties and charges are paid by the participating dealers directly to the Trustee and are therefore not reflected in the financial statements.

During the period, the Fund redeemed 5,400,000 units in exchange for Application Baskets consisting of investments valued at a total of HK\$88,527,545 by the Manager at the time of redemption plus the cash component equal to HK\$1,056,455.

7 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 available-for-sale securities for the Trust will not be retained for their own use but will be credited to the Trust. 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

Notes to Financial Statements (continued)

7 SOFT DOLLAR BENEFITS (continued)

Trust (as may be permitted under relevant regulations including, but not limited to, the SFC Code) 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.

8 IMPACT OF ADOPTING CLOSING PRICES IN LIEU OF BID PRICES ON THE TRUST'S NET ASSET VALUE

As mentioned in note 2(b), the Trust adopts the last traded prices quoted on the principal stock exchanges at the close of the business on the valuation day in valuing its listed available-for-sale securities. Had bid prices been adopted in lieu of last traded prices in valuing available-for-sale securities as required under IAS 39, the difference in the Trust's net asset value as at 31st December 2002 would have been as follows:

	HK\$
Net asset value at last traded prices	272,344,383
Adjustment to bid market prices	(799,680)
Adjusted net asset value at bid market prices	<u>271,544,703</u>

9 INVESTMENT LIMITATION AND PROHIBITIONS UNDER THE SFC CODE

The Trustee and the Manager have been granted a waiver by the SFC permitting the Manager to overweight the investment holdings of the Fund relative to their respective weightings in the Benchmark Index provided that the waiver on any overweight investment holdings must be subject to the corresponding limit as below:

Security's weight in the Benchmark Index	Maximum extra weighting to be allocated
Below 10%	4% except under the circumstances in*
10% - 30%	4%
30% - 50%	3%
Above 50%	2%

* where initial weighting of a constituent security is below 10% and that after giving an excess allocation of 4% due to optimisation, the total allocation to this constituent is still below 10%, allocation to it may be adjusted to up to a maximum 10%.

As at 31st December 2002, China Mobile accounted for 33.35% of the net asset value of the Fund and its weighting in the Benchmark Index is 33.72% on the same date.

10 FINANCIAL INSTRUMENTS

The objective of the Fund is to provide investment results that closely correspond to the performance of the Index. The risk exposures inherent in the Fund as at 31st December 2002 are summarised below.

Notes to Financial Statements (continued)

10 FINANCIAL INSTRUMENTS (continued)

(a) Market Price Risk

Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments in the market.

The Fund's investment activities expose it to the various types of market risks which are associated with the markets in which it invests and to the extent of the amount invested in equity securities totalling HK\$272,050,080 as at period end.

Details of the market exposures as at 31st December 2002 are disclosed in the investment portfolio.

(b) Credit Risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Fund.

Financial assets which potentially subject the Fund to concentrations of credit risk consist principally of securities and bank balances.

The Fund limits its exposure to credit risk by transacting the majority of its securities and contractual commitment activity with broker-dealers, banks and regulated exchanges with high credit ratings that the Fund considers to be well established.

All transactions in securities are settled/paid for upon delivery using approved and reputable brokers. The risk of default is considered minimal since delivery of securities sold is only made once the broker has received payment. On a purchase, payment is made once the securities have been received by the broker. If either party fails to meet their obligation, the trade will fail.

Accordingly, the Fund has no significant concentration of credit risk.

(c) Interest Rate Risk

The Fund is exposed to a minimal interest rate risk as the Fund invests mainly in equity securities and only the bank balances are exposed to interest rate risk which is considered to be minimal.

(d) Currency Risk

Currency risk is the risk that the value of financial instruments will fluctuate due to the changes in foreign exchange rates.

The Fund has no significant currency risk because substantially all assets and liabilities are denominated in Hong Kong Dollars, the Fund's reporting currency.

(e) Fair Values of Financial Instruments

The Fund's carrying amounts of available-for-sale securities, other assets and liabilities approximate to their fair values. Other assets and liabilities include bank balances, accruals and other payables which are realised or settled within a short period of time.

Investment Portfolio

iShares MSCI China Tracker

As at 31st December 2002

Investments (99.89%)	Holdings	Market Value HK\$	% of net assets
Listed Equities (99.89%)			
China (30.92%)			
Aluminum Corporation of China Ltd – H	1,920,000	2,169,600	0.80
Beijing Enterprises Holdings Ltd	384,000	2,726,400	1.00
China Petroleum & Chemical Corporation (Sinopec) – H	10,368,000	13,582,080	4.99
China Shipping Development Co Ltd – H	1,536,000	2,503,680	0.92
China Southern Airlines Company – H	1,152,000	2,419,200	0.89
China Telecom Corporation Ltd – H	7,872,000	10,784,640	3.96
Guangshen Railway Co Ltd – H	1,536,000	2,027,520	0.74
Huaneng Power Intl Inc – H	1,728,000	10,800,000	3.97
Jiangsu Expressway Co Ltd – H	1,344,000	3,091,200	1.14
Petrochina Co Ltd – H	14,400,000	22,320,000	8.20
Qingling Motors Co Ltd – H	1,152,000	1,048,320	0.38
Sinopec Yizheng Chemical Fibre Co Ltd – H	1,920,000	1,958,400	0.72
Yanzhou Coal Mining Co Ltd – H	1,152,000	3,571,200	1.31
Zhejiang Expressway Co Ltd – H	1,728,000	5,184,000	1.90
		84,186,240	30.92
Hong Kong (68.97%)			
Beijing Datang Power Generation Co Ltd – H	1,536,000	3,878,400	1.42
Brilliance China Automotive Holding Ltd	1,920,000	2,726,400	1.00
China Everbright Ltd	768,000	1,397,760	0.51
China Merchants Hldgs Intl Co Ltd	1,152,000	6,278,400	2.31
China Mobile (Hong Kong) Ltd	4,896,000	90,820,800	33.35
China Overseas Land & Investment Ltd	2,688,000	1,962,240	0.72
China Resources Land Ltd	1,344,000	1,075,200	0.39
China Resources Enterprise Ltd	1,152,000	7,948,800	2.92
China Travel Intl Inv HK Ltd	2,304,000	2,833,920	1.04
Citic Pacific Ltd	1,152,000	16,588,800	6.09
CNOOC Ltd	1,680,000	17,052,000	6.26
Cosco Pacific Ltd	1,152,000	7,372,800	2.71
Denway Motors Ltd	2,112,000	5,544,000	2.04
Legend Group Ltd	3,456,000	8,985,600	3.30
Shanghai Industrial Hldgs Ltd	480,000	5,160,000	1.89
Shenzhen Investment Ltd	1,344,000	1,424,640	0.52
Sinopec Shanghai Petrochemical Co Ltd – H	3,456,000	4,078,080	1.50
TCL International Hldgs Ltd	1,152,000	2,736,000	1.00
		187,863,840	68.97
Total investments		272,050,080	99.89
Other net assets		294,303	0.11
Net assets at 31st December 2002		272,344,383	100.00
Total investments, at cost		317,750,278	

Statement of Movements in Investment Portfolio

iShares MSCI China Tracker

For the period from 16th November 2001 (Date of Trust Deed)
to 31st December 2002

Investments	Holdings		Total as at 31st December 2002
	Additions	Disposals	
Listed Equities			
China			
Aluminum Corporation of China Ltd – H	1,920,000	–	1,920,000
Beijing Enterprises Holdings Ltd	492,000	108,000	384,000
China Petroleum & Chemical Corporation (Sinopec) – H	13,990,000	3,622,000	10,368,000
China Shipping Development Co Ltd – H	1,914,000	378,000	1,536,000
China Southern Airlines Company – H	2,406,000	1,254,000	1,152,000
China Telecom Corporation Ltd – H	7,872,000	–	7,872,000
Guangshen Railway Co Ltd – H	2,428,000	892,000	1,536,000
Huaneng Power Intl Inc – H	2,706,000	978,000	1,728,000
Jiangsu Expressway Co Ltd – H	1,772,000	428,000	1,344,000
Petrochina Co Ltd – H	19,730,000	5,330,000	14,400,000
Qingling Motors Co Ltd – H	1,722,000	570,000	1,152,000
Sinopec Yizheng Chemical Fibre Co Ltd – H	2,406,000	486,000	1,920,000
Zanzhou Coal Mining Co Ltd – H	1,722,000	570,000	1,152,000
Zhejiang Expressway Co Ltd – H	2,160,000	432,000	1,728,000
Hong Kong			
Beijing Datang Power Generation Co Ltd – H	2,460,000	924,000	1,536,000
Brilliance China Automotive Holding Ltd	2,706,000	786,000	1,920,000
China Everbright Ltd	1,230,000	462,000	768,000
China Merchants Hldgs Intl Co Ltd	1,936,000	784,000	1,152,000
China Mobile (Hong Kong) Ltd	7,864,000	2,968,000	4,896,000
China Overseas Land & Investment Ltd	3,674,000	986,000	2,688,000
China Resources Land Ltd	1,668,000	324,000	1,344,000
China Resources Enterprise Ltd	1,476,000	324,000	1,152,000
China Travel Intl Inv HK Ltd	3,228,000	924,000	2,304,000
Citic Pacific Ltd	1,936,000	784,000	1,152,000
CNOOC Ltd	2,458,500	778,500	1,680,000
Cosco Pacific Ltd	1,936,000	784,000	1,152,000
Denway Motors Ltd	3,166,000	1,054,000	2,112,000
Legend Group Ltd	5,808,000	2,352,000	3,456,000
Shanghai Industrial Hldgs Ltd	833,900	353,900	480,000
Shenzhen Investment Ltd	2,190,000	846,000	1,344,000
Sinopec Shanghai Petrochemical Co Ltd – H	4,658,000	1,202,000	3,456,000
TCL International Hldgs Ltd	3,086,000	1,934,000	1,152,000

Performance Record

iShares MSCI China Tracker

Net Asset Values

	Net asset value per unit HK\$	Net asset value of the Fund HK\$
At end of financial period dated 31st December 2002	14.18	272,344,383
Highest and lowest net asset value per unit		
	Highest net asset value per unit HK\$	Lowest net asset value per unit HK\$
Financial period ended 31st December 2002 (since inception)	18.12	13.66

Management and Administration

Directors of the Manager

Garrett F. Bouton
Alison Davis
Robert J. Haber
Joseph Ho

Trustee and Custodian

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Hong Kong

Conversion Agent

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Manager

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Legal Adviser to the Manager

Simmons & Simmons
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2 Queen's Road Central
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Legal Adviser to the Trustee

Deacons
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Chater Road
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Auditors

PricewaterhouseCoopers
22nd Floor
Prince's Building
Central
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