

A faint, light blue world map is visible in the background, centered on the Asian continent. The map shows the outlines of continents and a grid of latitude and longitude lines.

iShares Asia Trust

Annual Report

For the year ended 31st December 2003

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Letter to the Unitholders

Dear Unitholders:

We are pleased to present the second annual report and audited financial statements for the iShares Asia Trust (the "Trust") that cover the period from 1st January 2003 to 31st December 2003. This report contains important information about the performance of the iShares MSCI China Tracker (the "Fund"), the only fund established in the Trust, the Fund Manager's discussion and analysis, as well as other important financial information.

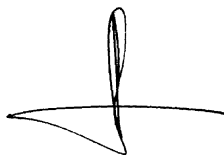
The Fund continues to be an efficient way for non-domestic Chinese investors to gain exposure to the Chinese economy by investing primarily in Red Chips and H-shares companies listed in Hong Kong. The Fund was launched on 23rd November 2001 and first traded on the Stock Exchange of Hong Kong on 28th November 2001.

The year 2003 emerged as one of the most volatile year in global investing. Equity markets around the world began 2003 gripped with fear and concerns about a lack of recovery after two consecutive years of retreats. Investors were fearful that the global economy could follow Japan's lead into deflation, while the outbreak of war in Iraq further undermined confidence. The Greater China region and Canada suffered from the outbreak of SARS (Severe Acute Respiratory Syndrome) in April, which has seriously affected business and traveling. Nevertheless, investors' despair had given way to hope as evidence of a global recovery began to build by the second half of the year. The S&P 500, the FTSE 100 and the Nikkei 225 registered respectable gains (in respective original currency terms) of 19.44%, 11.72% and 22.53%, respectively for the year. In the currency markets, sharp fall of the USD against major currencies was sparked by concerns over a record high US current account deficits and its continuous low-interest monetary policy. Against the USD, EURO advanced 20.04%, GBP gained 10.92% and JPY made a notable gain of 10.79% despite continuous intervention by the Bank of Japan throughout the year.

Chinese shares, as represented by the MSCI China (HKD) Index, registered a phenomenal gain of 80.27% in 2003. The Fund proves to be a useful tool for both international and domestic investors to capture the growth of the Red Chips and H-Shares companies listed in Hong Kong. As of 31st December 2003, total asset of the Fund increased more than two-folds to HK\$707,946,146 from HK\$272,344,383 as at the end of 2002. The number of units outstanding stood at 27,600,000, representing a 43.75% rise from 19,200,000 units as of 31st December 2002. The increase in units reflects strong interests from the investing public in using the Fund as a viable investment vehicle to gain exposure to the Chinese economic growth.

We again 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

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 2003, the NAV per unit of the Fund stood at HK\$25.65 with a total number of 27,600,000 units outstanding, giving the Fund a total size of HK\$707,946,146.

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

	MSCI China Index	NAV	Total Outstanding Units	Total Net Asset
31st December 2002	14.14	14.18	19,200,000	272,344,383
31st December 2003	25.49	25.65	27,600,000	707,946,146
Period Return	80.27%	80.89%	N/A	N/A

During the period under review, the total size of the Fund surged by 160% due to the robust performance of the Hong Kong listed Chinese stocks and substantial creation activities in the Fund. Whilst the Benchmark Index returned an impressive gain of 80.27%, the Fund recorded a slight outperformance in returning a gain of 80.89%. The Fund also made a distribution of HK\$11,872,000 of income, which was equivalent to HK\$0.53 per unit on 17th December 2003. Figure 1 below depicts the Fund’s NAV and last traded prices versus the Benchmark Index. During the last quarter, strong demand for the Fund was believed to cause a premium to appear in the trading prices. However, the efficient trading pattern resumed towards the end of the year.

Report of the Manager to the Unitholders (continued)



Figure 1

FUND FACTS

As a result of two changes in the Board of Directors of the Manager, we have issued an addendum on 7th May 2003. In the addendum, we disclosed that Mr. Garrett Bouton and Ms Alison Davis resigned as directors of the Manager and Mr. Andrew Graham Skirton and Mr. Francis Sean Ryan were appointed as directors of the Manager.

FUND ACTIVITIES

The average daily trading volume for the Fund during the period under review was reported by Bloomberg to be 155,341 units. However, this average figure was somewhat misleading. Poor economic outlook and the outbreak of SARS have ravaged investor sentiment in the first half of 2003 with an average daily trading volume of the Fund registered a lackluster 42,915 units. A series of supportive economic measures instituted by China to aim at restoring investor confidence together with the containment of SARS gradually turned the market around. The Fund witnessed a strong pick-up in the last quarter of the year and registered an average daily turnover of 356,910 units. From experience, we are confident that the trading volume of the Fund would continue to grow over time. More importantly, as seen in Figure 1, the last traded prices and the net asset values of the Fund were fairly close, indicating relatively efficient market making support performed by the two market makers: Morgan Stanley Dean Witter Hong Kong Securities Limited and Citigroup Global Markets Asia Limited.

As far as the primary market is concerned, the Fund experienced healthy creations and redemptions activities as a result of the growing recognition of the Fund and the performance of the China market. There were 5 redemptions which took place mostly in the first half of the year, followed by 15 consecutive creations with a total of 15,200,000 new units created in the last quarter of the year. Details of which are given as follows:

Report of the Manager to the Unitholders (continued)

INDEX ACTIVITIES (continued)

Date of Order	Units Created/(Redeemed)
13th January 2003	(2,400,000)
6th February 2003	(2,600,000)
2nd May 2003	(600,000)
20th May 2003	(600,000)
21st August 2003	(600,000)
17th September 2003	1,000,000
16th October 2003	1,000,000
23rd October 2003	600,000
28th October 2003	800,000
30th October 2003	1,000,000
10th November 2003	1,000,000
18th November 2003	400,000
20th November 2003	800,000
21st November 2003	800,000
28th November 2003	600,000
1st December 2003	2,000,000
5th December 2003	400,000
10th December 2003	400,000
17th December 2003	1,000,000
18th December 2003	3,400,000

On 17th November 2003, the Fund announced that the final distribution of the annual dividend payment per unit of HK\$0.53. The ex-dividend date was 2nd December 2003 and the record date was 3rd December 2003. The payable date of the dividend was on 17th December 2003.

INDEX ACTIVITIES

The Benchmark Index underwent four regular quarterly reviews in 2003. In the first review that took place at the end of February, the constituents' list was kept unchanged but outstanding shares in 9 constituent stocks (out of 43) were updated to reflect the current situation. During the second review that took place at the end of May 2003, the Benchmark Index made some significant changes. As of the close of 30th May 2003, China Aerospace International (stock code: 31) and Founder Holdings (stock code: 418) were deleted. At the same time, five new stocks including Sinotrans (stock code: 598), Tsingtao Brewery (stock code: 168), Beijing Capital International Airport (stock code: 694), Travelsky Technology (stock code: 696) and Cosco International (stock codes: 506) were added. The additions amounted to 3.37% of the Benchmark Index as of the close of 30th May 2003. In both the third and fourth review that took place at the end of August and November respectively, the constituents' list was kept unchanged. Nevertheless, the outstanding shares of 8 constituent stocks (out of 47) and 2 constituent stocks (out of 45) were adjusted in the third and fourth review respectively.

Report of the Manager to the Unitholders (continued)

INDEX ACTIVITIES (continued)

Moreover, China Resources Cement (stock code: 712) was spun-off from China Resources Enterprise (stock code: 291) on 29th July 2003. MSCI maintained China Resources Enterprise in the Benchmark Index but excluded China Resources Cement. For the adjustment of the capital distribution of China Resources Cement shares, China Resources (Detached) was added temporarily to the Benchmark Index as of the close of 10th July 2003 with 2,080,405,000 shares and a FIF (Foreign Inclusion Factor) of 0.45. The difference between the closing price of 9th July 2003 and the closing price of 10th July 2003 of China Resources Enterprise was used as the price of China Resources (Detached). The price remained unchanged until China Resources Cement started trading on 29th July 2003. China Resources (Detached) was deleted from the Index as of the close of 29th July 2003 by using the market price of China Resources Cement adjusted by the terms of the spin-off. Additionally, Top Glory International Holdings (stock code 268) was removed from the Index as of the close of 12th August 2003 due to its acquisition by the controlling shareholder.

In view of these changes, the Fund made rebalancing trades accordingly following both reviews.

MARKET REVIEW

The year 2003 emerged as one of the most volatile year in global investing. The first half of 2003 presented ample challenges to investors around the world but global equity markets witnessed a remarkable rebound in the latter half of the year. Globally, we witnessed the US invasion of Iraq in March. In April, the Greater China region and Canada was hit by the outbreak of SARS which lasted more than 2 months, causing a disruption to traveling to and from the region and further hindering the recovery of the regional markets. Nevertheless, investors' despair had given way to hope as evidence of a global recovery began to build by the second half of the year.

As confidence returned, global equity markets rose sharply from a trough they reached in March during the build up to the Iraq war. The Asian markets led this phenomenal rebound when the threat of SARS faded. During the full year of 2003, the MSCI EMF Asia Index surged 47.06% whereas the MSCI Pacific Index increased by 36.35%. In the US, investor confidence improved after the short-lived war and investments started to flow back into the equity markets. The S&P 500 Index resulted in a gain of 19.44%. Meanwhile, the FTSE 100 and the Nikkei 225 registered gains (in respective original currency terms) of 11.72% and 22.53%, respectively. Global equity markets, as measured by the MSCI World Index, registered a respectable improvement of 30.81%.

The global currency markets emerged as the center of attention for investors in 2003. Thanks to record high current account deficit and the easing monetary policy of the Federal Reserve in US, the USD declined against most major currencies. To fight continuous slow growth, the Federal Reserve's Open Market Committee lowered US prime interest rate to 1.00% on 25th June 2003. This was the lowest rate seen since 1958 and was prompted by the risk of deflation. The Euro recorded a historic high of 1 EURO to 1.2595 USD on the last day of 2003, representing a 20.04% appreciation since the end of 2002. As to other major currencies, the GBP gained 10.92% and the JPY also made a similar gain of 10.79% against the USD despite the continuous intervention by the Bank of Japan throughout 2003.

Report of the Manager to the Unitholders (continued)

MARKET REVIEW (continued)

In Hong Kong, the economy suffered seriously from the SARS outbreak, especially in the travel and airlines sectors. Unemployment rate soared to a record high of 8.7% in July 2003. Moreover, CPI contracted a further 3% yoy by the end of August. Political instability, fueled by the debates around the Article 23 legislation, also added to the volatility of the market. Nevertheless, with the signing of the CEPA (Closer Economic Partnership Arrangement) on 29th June 2003 and the relaxation on individual mainland visitors to Hong Kong, the economic sentiment made a 180 degree turn. Property prices also reversed its downward trend and picked up sharply from better investor confidence since October. Towards the end of the year, CPI narrowed its decline to 1.9% yoy and unemployment rate eased to 7.3%.

In local equity market, the Hang Seng China Enterprise Index, which represents Chinese State-owned enterprises whose shares trade in Hong Kong (H-Shares), surged 152.21% thanks to the continuous strength of the Chinese economy, the speculation of the introduction of the Qualified Domestic Institutional Investors (“QDII”) scheme and several notable IPOs such as China Life Insurance (stock code: 2628). The blue chip Hang Seng Index registered only a relatively modest gain of 34.92% over the same period whilst the Red Chips, as measured by the Hang Seng China Affiliated Corporation Index, gained 41.20%. The Fund’s Benchmark Index, which is composed of both H-Shares and Red Chips, registered a robust return of 80.27%.

Looking ahead, we expect to see continued volatilities in the global marketplace against a backdrop of improving economic conditions around the world. The Presidential Election in the US, the large imbalance of current accounts, and post-war development in Iraq will likely continue to significantly impact other major markets. On the contrary, the Chinese economy remains relatively insulated and should continue to grow at a brisk pace at over 7% per annum. In this regard, we believe the Fund remains a viable tool for investors, local or foreign, to gain exposure to the fast pacing Chinese economy.

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 year ended 31st December 2003.

Bermuda Trust (Far East) Limited

15 April 2004

Statement of Responsibilities of the Manager and the Trustee

MANAGER'S RESPONSIBILITIES

The Manager of the 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.

iShares Asia Trust (the "Trust") is an umbrella unit trust governed by its Trust Deed. As at 31st December 2003, iShares MSCI China Tracker (the "Fund") is the only fund established in the Trust.

Investment valuation policy

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 the calculation of the 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 Manager's ability to track the Benchmark Index.

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

MANAGER'S RESPONSIBILITIES (continued)

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 Participating Dealers 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.

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.

Had bid prices been adopted in lieu of last traded prices in valuing available-for-sale securities, the difference in the Trust's net asset value as at 31st December 2003 would have been as follows:

	2003 HK\$
Net asset value at last traded prices	706,817,840
Adjustment to bid market prices	<u>(2,214,900)</u>
Adjusted net asset value at bid market prices	<u><u>704,602,940</u></u>

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 the iShares Asia Trust (the "Trust") as of 31st December 2003 and the related statement of operations, statement of changes in capital and statement of cash flows for the year then ended. These financial statements set out on pages 11 to 22 are the responsibility of the Manager. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 2003 and of the results of its operations, its changes in capital and its cash flows for the year then ended and are prepared in accordance with International Financial Reporting Standards and the relevant provisions of the Trust Deed dated 16th November 2001 and the Code on Unit Trusts and Mutual Funds established by the Securities & Futures Commission of Hong Kong.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 15 April 2004

Statement of Assets and Liabilities

As at 31st December 2003

	Note	2003 HK\$	2002 HK\$
ASSETS			
Available-for-sale securities		706,817,840	272,050,080
Bank balances	5(c)	2,171,895	895,753
Total assets		<u>708,989,735</u>	<u>272,945,833</u>
LIABILITIES			
Management fee payable		965,589	601,450
Other accounts payable		78,000	-
Total liabilities		<u>1,043,589</u>	<u>601,450</u>
Net assets		<u>707,946,146</u>	<u>272,344,383</u>
Financed by:			
Capital account		<u>707,946,146</u>	<u>272,344,383</u>
Units in issue	4	<u>27,600,000</u>	<u>19,200,000</u>
Net asset value per unit		<u>25.65</u>	<u>14.18</u>

Approved by the Trustee and the Manager on 15 April 2004

Bermuda Trust (Far East) Limited

Barclays Global Investors North Asia Limited

Statement of Operations

For the year ended 31st December 2003

		01.01.2003 to 31.12.2003 HK\$	16.11.2001 to 31.12.2002 HK\$
	Note	<u> </u>	<u> </u>
INCOME			
Dividend income		9,020,604	7,437,065
Interest income	5(c)	–	4,066
		<u>9,020,604</u>	<u>7,441,131</u>
EXPENSES			
Management fee	5(a)	(2,748,299)	(3,189,604)
Transaction handling fee	5(b)	(15,202)	(36,853)
Bank charges	5(b)	(53,651)	(38,381)
		<u>(2,817,152)</u>	<u>(3,264,838)</u>
Net operating income		<u>6,203,452</u>	<u>4,176,293</u>
Net investment and exchange gain/(loss)			
Net realized loss on sale of available-for-sale securities		(10,282,228)	(5,542,790)
Net change in unrealized gain/loss on reevaluation of available-for-sale securities		214,052,958	(45,700,198)
Exchange (loss)/gain		(419)	1,078
		<u>203,770,311</u>	<u>(51,241,910)</u>
Net income/(loss) for the year/period		209,973,763	(47,065,617)
Amount transferred to the statement of distributions		(11,872,000)	(4,416,000)
Amount transferred (to)/from the capital account		(198,101,763)	51,481,617
		<u> –</u>	<u> –</u>

Statement of Changes in Capital

For the year ended 31st December 2003

	Note	01.01.2003 to 31.12.2003 HK\$	16.11.2001 to 31.12.2002 HK\$
Balance at the beginning of the year/period		272,344,383	–
Proceeds on issue of units for cash	6	6,017,960	1,174,600
Payments on redemption of units for cash	6	(702,530)	(1,056,455)
In-kind proceeds on issue of units	6	336,194,040	412,235,400
In-kind payments on redemption of units	6	(104,009,470)	(88,527,545)
		<u>509,844,383</u>	<u>323,826,000</u>
Amount transferred from/(to) the statement of operations net of distributions		<u>198,101,763</u>	<u>(51,481,617)</u>
Balance at the end of the year/period		<u><u>707,946,146</u></u>	<u><u>272,344,383</u></u>

Statement of Cash Flows

For the year ended 31st December 2003

		01.01.2003 to 31.12.2003 HK\$	16.11.2001 to 31.12.2002 HK\$
	Note	<u> </u>	<u> </u>
OPERATING ACTIVITIES			
Net operating income		6,203,452	4,176,293
Exchange (loss)/gain		(419)	1,078
Increase in management fee payable		364,139	601,450
Increase in other accounts payable		78,000	–
Net cash inflow from operating activities		<u>6,645,172</u>	<u>4,778,821</u>
INVESTING ACTIVITIES			
Purchase of available-for-sale securities	6	(7,798,528)	(75,758,627)
Sale of available-for-sale securities	6	<u>8,986,068</u>	<u>76,173,414</u>
Net cash inflow from investing activities		<u>1,187,540</u>	<u>414,787</u>
FINANCING ACTIVITIES			
Cash component received on issue of units	6	6,017,960	1,174,600
Cash component paid on redemption of units	6	(702,530)	(1,056,455)
Final distribution paid		<u>(11,872,000)</u>	<u>(4,416,000)</u>
Net cash outflow from financing activities		<u>(6,556,570)</u>	<u>(4,297,855)</u>
Increase in cash and cash equivalents		1,276,142	895,753
Cash and cash equivalents at the beginning of the year/period		<u>895,753</u>	–
Cash and cash equivalents at the end of the year/period		<u><u>2,171,895</u></u>	<u><u>895,753</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS:			
Bank balances		<u><u>2,171,895</u></u>	<u><u>895,753</u></u>

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

Statement of Distributions

For the year ended 31st December 2003

	01.01.2003 to 31.12.2003 HK\$	16.11.2001 to 31.12.2002 HK\$
Amount transferred from the statement of operations	11,872,000	4,416,000
Final distribution		
- HK\$0.23 on 19,200,000 units paid on 17th December 2002	-	(4,416,000)
- HK\$0.53 on 22,400,000 units paid on 17th December 2003	(11,872,000)	-
	<u>-</u>	<u>-</u>
	<u><u>-</u></u>	<u><u>-</u></u>

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 104(1) of the Securities and Futures Ordinance. As of 31st December 2003, iShares MSCI China Tracker (the “Fund”) is the only fund established in the Trust. The Fund is also 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 International Financial Reporting Standards. 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 recognized at cost (which includes transaction costs) and are 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 considered that the valuation policy adopted by the Trust is more reflective of the fair value basis for the Trust. The Trustee and the Manager have also considered the impact of the different bases adopted by the Trust on the Trust’s net asset value and considered that the amount resulting from the different bases adopted is not significant to the Trust’s net asset value.

Notes to Financial Statements (continued)

2 PRINCIPAL ACCOUNTING POLICIES (continued)

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

Purchases and sales of investments are accounted for on trade dates. Realized and unrealized gains and losses on available-for-sale securities are recognized 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 recognized when the Trust's right to receive payment is established.

Interest income on bank balances is recognized 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 year 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 the year end. Translation differences arising therefrom 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 realized 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	
	2003	2002
Units in issue at the beginning of the year/period	19,200,000	–
Issue of units	15,200,000	24,600,000
Redemption of units	(6,800,000)	(5,400,000)
Units in issue at the end of the year/period	<u>27,600,000</u>	<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 year 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 2003 was HK\$2,171,895 (2002: HK\$895,753). During the year, no interest (2002: HK\$4,066) was earned on the above bank balances.

6 MAJOR NON-CASH TRANSACTIONS

Subscriptions

In accordance with the Trust Deed, units can be issued through either cash 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 year, all units issued were through in kind creation and the Fund issued 15,200,000 units (2002: 24,600,000 units) in exchange for Application Baskets consisting of investments valued at a total of HK\$336,194,040 (2002: HK\$412,235,400) by the Manager at the time of issue plus the cash component equal to HK\$6,017,960 (2002: 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 was paid by the participating dealers directly to the Trustee and are therefore not reflected in the financial statements.

During the year, the Fund redeemed 6,800,000 units (2002: 5,400,000 units) in exchange for Application Baskets consisting of investments valued at a total of HK\$104,009,470 (2002: HK\$88,527,545) by the Manager at the time of redemption plus the cash component equal to HK\$702,530 (2002: HK\$1,056,455).

Notes to Financial Statements (continued)

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 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 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%.

Constituent stocks that account for more than 10% of net asset value of the Fund as at 31st December 2003 were as follows:

	Respective weighting in the Index (%)		% of net asset value	
	2003	2002	2003	2002
China Mobile (Hong Kong) Ltd	23.26	33.72	22.77	33.35
Petrochina Co Ltd - H	12.42	8.06	12.84	8.20

Notes to Financial Statements (continued)

9 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 2003 are summarised below.

(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\$706,817,840 (2002: HK\$272,050,080) as at year end.

Details of the market exposures as at 31st December 2003 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.

Notes to Financial Statements (continued)

9 FINANCIAL INSTRUMENTS (continued)

(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 realized or settled within a short period of time.

10 DISTRIBUTION

The Fund made a distribution of HK\$11,872,000 of income, which was equivalent to HK\$0.53 per unit on 17th December 2003.

Investment Portfolio

iShares MSCI China Tracker

As at 31st December 2003

Investments (99.83%)	Holdings	Market Value HK\$	% of net assets
Listed Equities (99.83%)			
China (50.10%)			
Aluminum Corporation of China Ltd – H	2,760,000	16,284,000	2.30
Beijing Datang Power Generation Co Ltd – H	2,208,000	12,254,400	1.73
China Petroleum & Chemical Corporation (Sinopec) – H	15,180,000	52,750,500	7.45
China Shipping Development Co Ltd – H	1,932,000	11,109,000	1.57
China Southern Airlines Company – H	1,656,000	5,506,200	0.78
China Telecom Corporation Ltd – H	11,316,000	36,211,200	5.11
Guangshen Railway Co Ltd – H	3,588,000	7,893,600	1.12
Huaneng Power Intl Inc – H	2,484,000	33,409,800	4.72
Jiangsu Expressway Co Ltd – H	2,484,000	10,246,500	1.45
Legend Group Ltd	4,692,000	15,600,900	2.20
Petrochina Co Ltd – H	20,450,000	91,002,500	12.84
Qingling Motors Co Ltd – H	1,656,000	2,533,680	0.36
Sinopec Shanghai Petrochemical Co Ltd – H	4,692,000	16,187,400	2.29
Sinopec Yizheng Chemical Fibre Co Ltd – H	2,484,000	4,868,640	0.69
Sinotrans Ltd – H	2,208,000	7,728,000	1.09
Travelsky Technology Ltd – H	552,000	4,609,200	0.65
Yanzhou Coal Mining Co Ltd – H	1,656,000	12,999,600	1.84
Zhejiang Expressway Co Ltd – H	2,484,000	13,537,800	1.91
		354,732,920	50.10
Hong Kong (49.73%)			
Beijing Enterprises Holdings Ltd	552,000	5,023,200	0.71
Brilliance China Automotive Holding Ltd	3,036,000	12,978,900	1.83
China Everbright Ltd	828,000	4,222,800	0.60
China Merchants Hldgs Intl Co Ltd	1,380,000	14,145,000	2.00
China Mobile (Hong Kong) Ltd	6,762,000	161,273,700	22.77
China Overseas Land & Investment Ltd	3,588,000	5,094,960	0.72
China Resources Enterprise Ltd	1,380,000	12,144,000	1.72
China Resources Land Ltd	1,104,000	1,203,360	0.17
China Travel Intl Inv HK Ltd	2,760,000	4,057,200	0.57
Citic Pacific Ltd	1,518,000	30,056,400	4.25
CNOOC Ltd	2,484,000	37,756,800	5.33
Cosco Pacific Ltd	1,656,000	17,139,600	2.42
Denway Motors Ltd	3,036,000	25,047,000	3.54
Shanghai Industrial Hldgs Ltd	828,000	14,697,000	2.08
Shenzhen Investment Ltd	1,380,000	1,573,200	0.22
TCL International Hldgs Ltd	1,656,000	5,671,800	0.80
		352,084,920	49.73
Total investments		706,817,840	99.83
Other net assets		1,128,306	0.17
Net assets at 31st December 2003		707,946,146	100.00
Total investments, at cost		538,465,080	

Statement of Movements in Investment Portfolio

iShares MSCI China Tracker

For the year ended 31st December 2003

Investments	Holdings			Total as at
	2002	Additions	Disposals	31st December 2003
Listed Equities				
China				
Aluminum Corporation of China Ltd – H	1,920,000	1,520,000	680,000	2,760,000
Beijing Datang Power Generation Co Ltd – H	1,536,000	1,216,000	544,000	2,208,000
China Petroleum & Chemical Corporation (Sinopec) – H	10,368,000	8,620,000	3,808,000	15,180,000
China Shipping Development Co Ltd – H	1,536,000	1,064,000	668,000	1,932,000
China Southern Airlines Company – H	1,152,000	912,000	408,000	1,656,000
China Telecom Corporation Ltd – H	7,872,000	6,232,000	2,788,000	11,316,000
Guangshen Railway Co Ltd – H	1,536,000	2,626,000	574,000	3,588,000
Huaneng Power Intl Inc – H	1,728,000	1,368,000	612,000	2,484,000
Jiangsu Expressway Co Ltd H	1,344,000	1,628,000	488,000	2,484,000
Legend Group Ltd	3,456,000	2,584,000	1,348,000	4,692,000
Petrochina Co Ltd – H	14,400,000	11,348,000	5,298,000	20,450,000
Qingling Motors Co Ltd – H	1,152,000	912,000	408,000	1,656,000
Sinopec Shanghai Petrochemical Co Ltd – H	3,456,000	2,584,000	1,348,000	4,692,000
Sinopec Yizheng Chemical Fibre Co Ltd – H	1,920,000	1,368,000	804,000	2,484,000
Sinotrans Ltd – H	–	2,256,000	48,000	2,208,000
Travelsky Technology Ltd – H	–	564,000	12,000	552,000
Yanzhou Coal Mining Co Ltd – H	1,152,000	912,000	408,000	1,656,000
Zhejiang Expressway Co Ltd – H	1,728,000	1,368,000	612,000	2,484,000
Hong Kong				
Beijing Enterprises Holdings Ltd	384,000	304,000	136,000	552,000
Brilliance China Automotive Holding Ltd	1,920,000	1,802,000	686,000	3,036,000
China Everbright Ltd	768,000	456,000	396,000	828,000
China Merchants Hldgs Intl Co Ltd	1,152,000	760,000	532,000	1,380,000
China Mobile (Hong Kong) Ltd	4,896,000	3,724,000	1,858,000	6,762,000
China Overseas Land & Investment Ltd	2,688,000	1,976,000	1,076,000	3,588,000
China Resources Cement Holdings	–	65,000	65,000	–
China Resources Enterprise Ltd	1,152,000	760,000	532,000	1,380,000
China Resources Land Ltd	1,344,000	608,000	848,000	1,104,000
China Travel Intl Inv HK Ltd	2,304,000	1,520,000	1,064,000	2,760,000
Citic Pacific Ltd	1,152,000	836,000	470,000	1,518,000
CNOOC Ltd	1,680,000	1,400,500	596,500	2,484,000
Cosco Pacific Ltd	1,152,000	912,000	408,000	1,656,000
Denway Motors Ltd	2,112,000	1,672,000	748,000	3,036,000
Shanghai Industrial Hldgs Ltd	480,000	586,000	238,000	828,000
Shenzhen Investment Ltd	1,344,000	760,000	724,000	1,380,000
TCL International Hldgs Ltd	1,152,000	912,000	408,000	1,656,000

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
31st December 2003	25.65	707,946,146

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
31st December 2003	25.65	13.27

Management and Administration

Directors of the Manager

Andrew Graham Skirton
Francis Sean Ryan
Robert J. Haber
Joseph Ho

Trustee and Custodian

Bermuda Trust (Far East) Limited
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The Landmark
15 Queen's Road Central
Hong Kong

Registrar

Hong Kong Registrars Limited
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199 Des Voeux Road Central
Hong Kong

Conversion Agent

HK Conversion Agency Services Limited
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199 Des Voueux Road Central
Hong Kong

Manager

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Hong Kong

Legal Adviser to the Manager

Simmons & Simmons
35th Floor, Cheung Kong Center
2 Queen's Road Central
Hong Kong

Legal Adviser to the Trustee

Deacons
3rd - 7th, 18th & 29th Floors, Alexandra House
Charter Road
Central
Hong Kong

Auditors

PricewaterhouseCoopers
22nd Floor
Prince's Building
Central
Hong Kong