

A faint, light blue world map is visible in the background of the cover page, centered behind the text.

# **iShares Asia Trust**

## **Semi-annual Report**

**30 June 2004**

# Contents

Letter to the Unitholders .....	1 - 2
Report of the Manager to the Unitholders .....	3 - 7
Statement of Assets and Liabilities .....	8
Statement of Operations .....	9
Statement of Changes in Capital .....	10
Statement of Cash Flows .....	11
Notes to the Financial Statements .....	12-19
Investment Portfolio – iShares MSCI China Tracker .....	20-21
Statement of Movements in Investment Portfolio – iShares MSCI China Tracker .....	22-23
Performance Record – iShares MSCI China Tracker .....	24
Management and Administration .....	25

# Letter to the Unitholders

Dear Unitholders:

We are pleased to present the unaudited semi-annual report and financial statements for the iShares Asia Trust (the "Trust") that covers the period from 1st January 2004 to 30th June 2004. 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 first half of 2004 produced diverse performances from the global equity markets. On the economy front, the US economy seemed to be back on an expansionary track with deflation threat receded in the first quarter of the year. As a consequence, the Federal Reserve's Open Market Committee raised the US prime interest rate to 1.25% on 30th June 2004 which could mark the beginning of a wave of rate hikes around the world. In Asia, sentiment was improving in Japan with stronger economic outlook but amid political uncertainties. In Hong Kong, the optimism at the start of the year also gave way to uncertainties in due course. In March, the Chinese government put in place various macro-tightening policies in order to curb over-capacities in selective sectors, skyrocketing property prices and inflation. This had a spillover effect to Hong Kong despite an improving consumer and property market and a reverse in CPI contraction.

During the period under review, the S&P 500, the FTSE 100 and the Nikkei 225 registered diverse performances. In respective local currency terms, the S&P 500 was up 2.60%, the FTSE was flat with a slight loss of 0.29% and the Nikkei 225 made an impressive gain of 11.07%. In the currency markets, the USD rebounded strongly after hitting a record low against the Euro in the middle of February. For the six months, the Euro lost 3.14%, the GBP gained 1.93% and the JPY retreated 1.45% against the USD.

Chinese shares, as represented by the MSCI China (HKD) Index, registered a loss of 11.89% during the period under review. As of 30th June 2004, total asset of the Fund increased more than 26% to HK\$895,393,997 from HK\$707,946,146 as at the end of 2003. The number of units outstanding stood at 39,000,000, representing a 41.30% rise from 27,600,000 units as of 31st December 2003. 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.

## Letter to the Unitholders (continued)

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,

A handwritten signature in black ink, appearing to read 'Joseph Ho', is positioned above a horizontal line. The signature is somewhat stylized and slightly blurred.

**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 30th June 2004, the NAV per unit of the Fund stood at HK\$22.96 with a total number of 39,000,000 units outstanding, giving the Fund a total size of HK\$895,393,997.

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

	<b>MSCI China Index</b>	<b>NAV</b>	<b>Total Outstanding Units</b>	<b>Total Net Asset</b>
31st December 2003	25.49	25.65	27,600,000	707,946,146
30th June 2004	22.46	22.96	39,000,000	895,393,997
Period Return	-11.89%	-10.49%	N/A	N/A

Despite the decline of the China related stocks during the period under review, the total size of the Fund surged by 26.48% due to the substantial creation activities in the Fund. Whilst the Benchmark Index registered a loss of 11.89%, the Fund recorded a slight outperformance in returning a loss of 10.49%. 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)

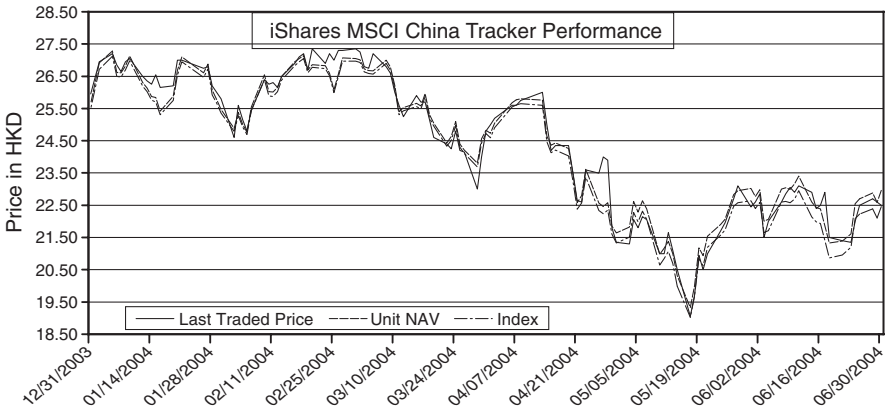


Figure 1

## FUND FACTS

As a result of a change in the Board of Directors of the Manager, we have issued an addendum on 16th April 2004. In the addendum, we disclosed that Mr. Nigel Grenville Williams was appointed as director of the Manager on 1st January 2004.

## FUND ACTIVITIES

The average daily trading volume for the Fund during the period under review was reported by Bloomberg to be 325,607 units. This reflects a gaining acceptance of the Fund as an investing vehicle both in the short and long horizon. Moreover, 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 Asia Limited and Citigroup Global Markets Asia Limited.

## Report of the Manager to the Unitholders (continued)

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 attractiveness of the China market. There were 12 creations with a total of 16,200,000 new units created during the first quarter. As the market went into a correction phase, there were subsequently 3 redemptions and 2 creations. As a result, there were net creations of 11,400,000 units during the period under review. Details of which are given as follows:

<b>Date of Order</b>	<b>Units Created/(Redeemed)</b>
2nd January 2004	400,000
7th January 2004	2,000,000
13th January 2004	2,000,000
16th January 2004	3,000,000
27th January 2004	400,000
29th January 2004	2,000,000
30th January 2004	2,000,000
25th February 2004	200,000
5th March 2004	200,000
8th March 2004	3,200,000
22nd March 2004	200,000
23rd March 2004	600,000
30th March 2004	(1,000,000)
1st April 2004	1,600,000
6th April 2004	200,000
11th May 2004	(4,000,000)
17th June 2004	(1,600,000)

### INDEX ACTIVITIES

The Benchmark Index underwent two regular quarterly reviews during the period under review. In the first review that took place at the end of February, Avichina (stock code: 2357) and Fujian Zijin Mining (stock code: 2899) were added. During the second review that took place at the end of May 2004, the Benchmark Index made significant changes. As of the close of 28th May 2004, the B-share Eastern Communication (B-share stock code: 900941) was deleted. At the same time, nine new stocks including PICC Properties and Casualties (stock code: 2328), Maanshan Iron and Steel (stock code: 323), Anhui Conch Cement (stock code: 914), BYD Co (stock code: 1211), Weiqiao Textile (stock code: 2698), Angang New Steel (stock code: 347), Sinopec Beijing Yanhua (stock code: 325), Guangzhou Investment (stock code: 123) and Shenzhen Expressway (stock code: 548) were added.

## Report of the Manager to the Unitholders (continued)

Moreover, three IPOs were added to the Benchmark Index. China Life Insurance (stock code: 2628) was added as of the close of 5th January 2004 with 7,441,175,000 H shares and a Foreign Inclusion Factor of 0.90. SMIC (stock code: 981) was added as of the close of 31st March 2004 with 18,216,373,180 shares and a Foreign Inclusion Factor (FIF) of 0.30. China Shipping Container (stock code: 2866) was added as of the close of 30th June 2004 with 2,420,000,000 shares and a Foreign Inclusion Factor (FIF) of 0.85.

In view of these changes, the Fund made the rebalancing trades accordingly. As of the close of 30th June 2004, there were 58 stocks in the Benchmark Index.

### MARKET REVIEW

The first half of 2004 produced diverse performance from global equity markets. While the MSCI World Index made a moderate gain of 2.53% during this period, the divergence among markets was actually quite large. Japan took the lead with the Nikkei 225 registered an impressive gain of 11.07%. The S&P 500 Index also gained 2.60% whereas the FTSE 100 was flat with a slight loss of 0.29%. As for the Asian markets, the MSCI EMF Asia Index fell by 5.52% whilst the MSCI Pacific Index increased by 7.34%. The US economy was back on an expansionary track and deflation threat receded in the first quarter. On 30th June 2004, the Federal Reserve's Open Market Committee raised the US prime interest rate to 1.25%, almost exactly one year after the recent record low rate of 1% was put in place last year. This may mark the beginning of a wave of rate hikes around the world.

The global currency markets were very volatile during the period under review. The effect of record high current account deficit and the easing monetary policy of the Federal Reserve continued to drag down the dollar in the first two months of the year. The Euro recorded a historic high of 1 Euro to 1.2842 USD on 17th February 2004. Nevertheless, the USD rebounded sharply subsequently thanks to the increase in industry production and robust consumers spending. The US economy was then seen to be recovering at a steady rate. As of 30th June 2004, the Euro registered a loss of 3.14% with the JPY lost 1.45% while the GBP gained 1.93% against the USD.



## Report of the Manager to the Unitholders (continued)

In Hong Kong, the optimism at the start of the year gave way to uncertainties towards the latter half of the period under review. On the economy front, individual mainland visitors continued to boost the Hong Kong consumer market. At the same time, a strong recovery was seen in local property prices was selective (especially the luxury segment) estimated to have gone up over 30%. Unemployment rate continued also shrank to 6.9% at the end of June and is expected to decline further to end the year at 6.5%. Likewise, CPI decline was narrowed, registering a modest contraction since the end of last year. Across the border, various macro-tightening policies were put in place in March to curb over-capacities, inflation and the skyrocketing property prices. The downfall of the mainland equity markets spilled over to Hong Kong equities. The H-shares were affected the most and the Hang Seng China Enterprise Index registered a loss of 14.52% for the six month period. The blue chip Hang Seng Index made a modest loss of 2.31% over the same period whilst the Red Chips, as measured by the Hang Seng China Affiliated Corporation Index, lost 4.86%. The Fund's Benchmark Index, which is composed of both H-Shares and Red Chips, registered a loss of 11.89%.

Looking ahead, we expect to see continued volatilities in the global marketplace. The Presidential Election and the large imbalance of current accounts in the US, and post-war development in Iraq will likely continue to significantly impact other major markets. The possibility of either a soft or hard landing in the mainland China will certainly add more uncertainties to the whole picture.

# Statement of Assets and Liabilities

As at 30th June 2004 (Unaudited)

		30 June 2004 HK\$	31 December 2003 HK\$
ASSETS			
Available-for-sale securities		881,597,925	706,817,840
Bank balances	5(c)	13,413,462	2,171,895
Dividend receivable		2,411,959	0
Total assets		897,423,346	708,989,735
LIABILITIES			
Management fee payable		2,008,764	965,589
Other accounts payable		20,585	78,000
Total liabilities		2,029,349	1,043,589
Net assets		895,393,997	707,946,146
FINANCED BY:			
Capital account		895,393,997	707,946,146
Units in issue	4	39,000,000	27,600,000
Net asset value per unit		22.96	25.65

# Statement of Operations

For the period ended 30th June 2004 (Unaudited)

	Note	30 June 2004 HK\$	31 December 2003 HK\$
<b>INCOME</b>			
Dividend income		16,872,503	9,020,604
		<u>16,872,503</u>	<u>9,020,604</u>
<b>EXPENSES</b>			
Management fee	5(a)	(4,799,745)	(2,748,299)
Transaction handling fee	5(b)	(68,893)	(15,202)
Bank charges	5(b)	(120,139)	(53,651)
		<u>(4,988,777)</u>	<u>(2,817,152)</u>
Net operating income		<u>11,883,726</u>	<u>6,203,452</u>
<b>NET INVESTMENT AND EXCHANGE GAIN/(LOSS)</b>			
Net realised gain/(loss) on sale of available-for-sale securities		21,056,473	(10,282,228)
Net change in unrealised loss/gain on revaluation of available-for-sale securities		(168,335,430)	214,052,958
Exchange gain/(loss)		3,082	(419)
		<u>(147,275,875)</u>	<u>203,770,311</u>
Net (loss)/income for the period/year		(135,392,149)	209,973,763
Amount transferred to the statement of distributions		0	(11,872,000)
Amount transferred from/(to) the capital account		135,392,149	(198,101,763)
		<u>-</u>	<u>-</u>

# Statement of Changes in Capital

For the period ended 30th June 2004 (Unaudited)

	Note	30 June 2004 HK\$	31 December 2003 HK\$
Balance at the beginning of the period		707,946,146	272,344,383
Proceeds on issue of units for cash	6	2,793,085	6,017,960
Payments on redemption of units for cash	6	(2,080,860)	(702,530)
In-kind proceeds on issue of units	6	464,278,915	336,194,040
In-kind payments on redemption of units	6	(142,151,140)	(104,009,470)
		<u>1,030,786,146</u>	<u>509,844,383</u>
Amount transferred (to)/from the statement of operations net of distributions		(135,392,149)	198,101,763
Balance at the end of the period		<u>895,393,997</u>	<u>707,946,146</u>

# Statement of Cash Flows

For the period ended 30th June 2004 (Unaudited)

	Note	30 June 2004 HK\$	31 December 2003 HK\$
<b>OPERATING ACTIVITIES</b>			
Net operating income		11,883,726	6,203,452
Exchange gain/(loss)		3,082	(419)
Increase in dividend receivable		(2,411,959)	0
Increase in management fee payable		1,043,175	364,139
(Decrease)/increase in accruals and others payables		(57,415)	78,000
Net cash inflow from operating activities		10,460,609	6,645,172
<b>INVESTING ACTIVITIES</b>			
Purchase of available-for-sale securities	6	(242,244,210)	(7,798,528)
Sale of available-for-sale securities	6	242,312,943	8,986,068
Net cash inflow from investing activities		68,733	1,187,540
<b>FINANCING ACTIVITIES</b>			
Cash component received on issue of units	6	2,793,085	6,017,960
Cash component paid on redemption of units	6	(2,080,860)	(702,530)
Final distribution paid		0	(11,872,000)
Net cash inflow/outflow from financing activities		712,225	(6,556,570)
Increase in cash and cash equivalents		11,241,567	1,276,142
Cash and cash equivalents at the beginning of the period		2,171,895	895,753
Cash and cash equivalents at the end of the period		13,413,462	2,171,895
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Bank balances		13,413,462	2,171,895

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

# Notes to Financial Statements (Unaudited)

## 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 30th June 2004, 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.

# Notes to Financial Statements (Unaudited) (continued)

## 2 PRINCIPAL ACCOUNTING POLICIES (continued)

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

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.

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 Fund'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.

# Notes to Financial Statements (Unaudited) (continued)

## 2 PRINCIPAL ACCOUNTING POLICIES (continued)

### (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 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.

## 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	27,600,000
Issue of units	18,000,000
Redemption of units	(6,600,000)
Units in issue at the end of the period	39,000,000



## Notes to Financial Statements (Unaudited) (continued)

### 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.

**(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 30th June 2004 was HK\$13,413,462. No interest was earned during this period.

# Notes to Financial Statements (Unaudited) (continued)

## 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 period, all units issued were through in kind creation and the Fund issued 18,000,000 units in exchange for Application Baskets consisting of investments valued at a total of HK\$464,278,915 by the Manager at the time of issue plus the cash component equal to HK\$2,793,085.

### 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 period, the Fund redeemed 6,600,000 units in exchange for Application Baskets consisting of investments valued at a total of HK\$142,151,140 by the Manager at the time of redemption plus the cash component equal to HK\$2,080,860.

# Notes to Financial Statements (Unaudited) (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 Fund (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:

<b>Security's weight in the Benchmark Index</b>	<b>Maximum extra weighting to be allocated</b>
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 30th June 2004, China Mobile accounted for 20.29% of the net asset value of the Fund and the weighting in the Benchmark Index is 19.97% on the same date.

# Notes to Financial Statements (Unaudited) (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 30th June 2004 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\$881,597,925 as at period end.

Details of the market exposures as at 30th June 2004 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.

# Notes to Financial Statements (Unaudited) (continued)

## 9 FINANCIAL INSTRUMENTS (continued)

### (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.

## 10 DISTRIBUTION

No distribution was made during this period.

# Investment Portfolio

## iShares MSCI China Tracker

For the period ended 30th June 2004 (Unaudited)

Investments (98.46%)	Holdings	Market Value HK\$	% of net assets
<b>Listed Equities (98.46%)</b>			
<b>China (55.45%)</b>			
Aluminum Corporation of China Ltd - H	3,900,000	16,282,500	1.82
Angang New Steel Co Ltd - H	1,950,000	5,362,500	0.60
Anhui Conch Cement Co Ltd - H	780,000	6,747,000	0.75
Avichina Industry & Technology Co Ltd	2,340,000	2,129,400	0.24
BYD Co Ltd - H	195,000	4,494,750	0.50
China Petroleum & Chemical Corporation (Sinopec) - H	21,060,000	60,021,000	6.70
China Shipping Development Co Ltd - H	2,340,000	10,881,000	1.22
China Southern Airlines Company - H	1,950,000	5,996,250	0.67
China Telecom Corporation Ltd - H	20,670,000	56,325,750	6.29
China Life Insurance Co - H	10,335,000	47,541,000	5.31
Datang Intl Power Gen Co Ltd - H	3,120,000	18,876,000	2.11
Guangshen Railway Co Ltd - H	2,340,000	5,265,000	0.59
Huaneng Power Intl Inc - H	5,850,000	40,657,500	4.54
Jiangsu Expressway Co Ltd - H	2,340,000	8,775,000	0.98
Lenovo Group Ltd	5,460,000	11,875,500	1.33
Maanshan Iron & Steel	3,120,000	7,878,000	0.88
Petrochina Co Ltd - H	24,570,000	88,452,000	9.88
PICC Property & Casualty Co Ltd - H	3,120,000	9,360,000	1.05
Qingling Motors Co Ltd - H	2,340,000	2,433,600	0.27
Semiconductor Manufacturing Intl Corp	8,580,000	14,586,000	1.63
Sinopec Shanghai Petrochemical Co Ltd - H	6,240,000	16,224,000	1.81
Sinopec Yizheng Chemical Fibre Co Ltd - H	3,120,000	4,305,600	0.48
Sinotrans Ltd - H	2,145,000	6,006,000	0.67
Travelsky Technology Ltd - H	585,000	2,983,500	0.33
Weiqiao Textile Co Ltd - H	1,462,500	16,745,625	1.87
Yanzhou Coal Mining Co Ltd - H	1,560,000	13,260,000	1.48
Zhejiang Expressway Co Ltd - H	2,340,000	12,987,000	1.45
<b>Total China</b>		<b>496,451,475</b>	<b>55.45</b>

## Investment Portfolio (continued)

### iShares MSCI China Tracker

For the period ended 30th June 2004 (Unaudited)

	Holdings	Market Value HK\$	% of net assets
<b>Hong Kong (43.01%)</b>			
Beijing Enterprises Holdings Ltd	390,000	3,627,000	0.41
Brilliance China Automotive Holdings Ltd	3,510,000	8,073,000	0.90
China Everbright Ltd	1,170,000	3,422,250	.38
China Merchants Holdings Intl Co Ltd	1,560,000	16,380,000	1.83
China Mobile (Hong Kong) Ltd	7,702,500	181,779,000	20.29
China Overseas Land & Investment Ltd	5,070,000	6,844,500	0.76
China Resources Enterprise Ltd	1,560,000	14,742,000	1.65
China Resources Land Ltd	1,560,000	1,513,200	0.17
China Travel Intl Inv HK Ltd	3,120,000	4,180,800	0.47
Citic Pacific Ltd	1,755,000	33,520,500	3.74
CNOOC Ltd	18,720,000	61,776,000	6.90
Cosco Pacific Ltd	1,950,000	21,157,500	2.36
Denway Motors Ltd	3,510,000	9,915,750	1.11
Shanghai Industrial Holdings Ltd	780,000	11,193,000	1.25
Shenzhen Investment Ltd	2,340,000	2,293,200	0.26
TCL International Holdings Ltd	1,950,000	4,728,750	0.53
Total Hong Kong		385,146,450	43.01
Total investments		881,597,925	98.46
Other net assets		13,796,072	1.54
Net assets at 30th June 2004		895,393,997	100.00
Total investments, at cost		881,580,595	

# Statement of Movements in Investment Portfolio

## iShares MSCI China Tracker

For the period ended 30th June 2004 (Unaudited)

Investments	As at 31	Holdings		Total as at
	December 2003	Additions	Disposals	30 June 2004
<b>Listed Equities</b>				
<b>China</b>				
Aluminum Corporation of				
China Ltd - H	2,760,000	2,968,000	1,828,000	3,900,000
Angang New Steel Co Ltd - H	0	2,030,000	80,000	1,950,000
Anhui Conch Cement Co Ltd - H	0	812,000	32,000	780,000
Avichina Industry & Technology Co Ltd	0	9,736,000	7,396,000	2,340,000
BYD Co Ltd - H	0	203,000	8,000	195,000
China Petroleum & Chemical				
Corporation (Sinopec) - H	15,180,000	11,956,000	6,076,000	21,060,000
China Shipping Development				
Co Ltd - H	1,932,000	1,520,000	1,112,000	2,340,000
China Southern Airlines Company - H	1,656,000	1,340,000	1,046,000	1,950,000
China Telecom Corporation Ltd - H	11,316,000	13,174,000	3,820,000	20,670,000
China Life Insurance Co Ltd - H	0	14,286,000	3,951,000	10,335,000
Datang Intl Power Gen Co Ltd - H	2,208,000	1,878,000	966,000	3,120,000
Guangshen Railway Co Ltd - H	3,588,000	3,700,000	4,948,000	2,340,000
Huaneng Power Intl Inc - H	2,484,000	5,012,000	1,646,000	5,850,000
Jiangsu Expressway Co Ltd - H	2,484,000	1,324,000	1,468,000	2,340,000
Lenovo Group Ltd - H	4,692,000	2,824,000	2,056,000	5,460,000
Maanshan Iron & Steel - H	0	3,248,000	128,000	3,120,000
Petrochina Co Ltd - H	20,450,000	14,758,000	10,638,000	24,570,000
PICC Property & Casualty Co Ltd - H	0	3,248,000	128,000	3,120,000
Qingling Motors Co Ltd - H	1,656,000	1,794,000	1,110,000	2,340,000
Semiconductor Manufacturing				
Intl Corp	0	9,792,000	1,212,000	8,580,000
Sinopec Shanghai Petrochemical				
Co Ltd - H	4,692,000	3,964,000	2,416,000	6,240,000
Sinopec Yizheng Chemical Fibre				
Co Ltd - H	2,484,000	2,268,000	1,632,000	3,120,000
Sinotrans Ltd - H	2,208,000	1,283,000	1,346,000	2,145,000
Travelsky Technology Ltd - H	552,000	718,000	685,000	585,000
Weiqiao Textile Co Ltd - H	0	1,522,500	60,000	1,462,500
Yanzhou Coal Mining Co Ltd - H	1,656,000	904,000	1,000,000	1,560,000
Zhejiang Expressway Co Ltd - H	2,484,000	1,828,000	1,972,000	2,340,000



# Statement of Movements in Investment Portfolio (continued)

## iShares MSCI China Tracker

For the period ended 30th June 2004 (Unaudited)

Investments	As at 31	Holdings		Total as at
	December 2003	Additions	Disposals	30 June 2004
<b>Hong Kong</b>				
Beijing Enterprise Holdings Ltd	552,000	640,000	802,000	390,000
Brilliance China Automotive Holdings Ltd	3,036,000	1,920,000	1,446,000	3,510,000
China Everbright Ltd	828,000	540,000	198,000	1,170,000
China Merchants Holdigs Intl Co Ltd	1,380,000	900,000	720,000	1,560,000
China Mobile (Hong Kong) Ltd	6,762,000	4,116,500	3,176,000	7,702,500
China Overseas Land & Investment Ltd	3,588,000	3,440,000	1,958,000	5,070,000
China Resources Enterprise Ltd	1,380,000	1,170,000	990,000	1,560,000
China Resources Land Ltd	1,104,000	1,544,000	1,088,000	1,560,000
China Travel Intl Inv HK Ltd	2,760,000	1,624,000	1,264,000	3,120,000
China Travel Intl Inv HK Ltd - WTS 31/05/2006	0	802,800	802,800	0
Citic Pacific Ltd	1,518,000	960,000	723,000	1,755,000
CNOOC Ltd	2,484,000	19,423,000	3,187,000	18,720,000
Cosco Pacific Ltd	1,656,000	904,000	610,000	1,950,000
Denway Motors Ltd	3,036,000	5,800,000	5,326,000	3,510,000
Shanghai Industrial Holdings Ltd	828,000	582,000	630,000	780,000
Shenzhen Investment Ltd	1,380,000	2,906,000	1,946,000	2,340,000
TCL International Holdings Ltd	1,656,000	1,080,000	786,000	1,950,000

# 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
30th June 2004	22.96	895,393,997

### 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
1st January 2004 to 30th June 2004	27.29	19.33

# Management and Administration

## **Directors of the Manager**

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

## **Trustee and Custodian**

Bermuda Trust (Far East) Limited  
39th Floor, Edinburgh Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

## **Registrar**

Computershare Hong Kong Investor  
Services Limited  
Shop 1712-1716  
17th Floor Hopewell Center  
183 Queen's Road East  
Hong Kong

## **Conversion Agent**

HK Conversion Agency Services Limited  
2nd Floor Vicwood Plaza  
199 Des Voeux Road Central  
Hong Kong

## **Manager**

Barclays Global Investors North Asia Limited  
Suite 2901, One International Finance Centre  
1 Harbour View Street  
Central  
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  
Chater Road  
Central  
Hong Kong

## **Auditors**

PricewaterhouseCoopers  
22nd Floor  
Prince's Building  
Central  
Hong Kong