



iShares MSCI China Tracker
(a sub-fund of iShares Asia Trust)

Annual Report

For the year ended 31st December 2004

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Letter to the Unitholders

Dear Unitholders:

We are pleased to present the third annual report and audited financial statements for the iShares Asia Trust (the "Trust") that cover the period from 1st January 2004 to 31st December 2004. This report contains important information about the performance of the iShares MSCI China Tracker (the "Fund"), the first sub-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.

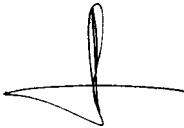
The global equities markets were marked by an across-the-board recovery in 2004. The US economy was back on an expansionary track with deflationary threat receding by first quarter 2004. The Federal Reserve's Open Market Committee started raising US interest rates on 30th June 2004. After successive rate hikes, the US prime interest rate reached the 2.25% level attained back in 2001. The S&P 500, the FTSE 100 and the Nikkei 225 all registered respectable gains (in respective original currency terms) of 8.99%, 7.54% and 7.61%, respectively for the year. In South Asia, we witnessed the deadly Tsunami that claimed more than 150,000 lives but its impact on the Asian equity markets was minimal at the time of writing of this report. In the currency markets, sharp fall of the USD against major currencies was sparked by concerns over the record high twin current account and trade deficits. Against the USD, EURO kept breaking new grounds and hit a record high level of 1.3637. For the full year, EURO advanced 7.61%, GBP 7.41% and JPY 4.28% against the USD.

Chinese shares, as represented by the MSCI China (HKD) Index, registered a slight loss of 0.71% in 2004. As of 31st December 2004, total asset of the Fund rose by 23.57% to HK\$874,779,224 from HK\$707,946,146 as at the end of 2003. The number of units outstanding stood at 34,400,000, representing a 24.64% increase from 27,600,000 units as of 31st December 2003. The increase in units and healthy creation/redemption activities 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, consisting of a vertical stroke with a loop at the top and a horizontal stroke extending to the left.

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 first sub-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 is benchmarked against the MSCI China (HKD) Index (the “Benchmark Index”). On 18th November 2004, the second sub-fund, iShares FTSE/Xinhua A50 China Tracker (the “A50 China Tracker”) benchmarked against the FTSE/Xinhua China A50 Index, began trading under the stock code 2823 on the Stock Exchange. The financial report on A50 China Tracker will be published in the next annual report. These sub-funds are established as index funds authorized by the Securities and Futures Commission (the “SFC”) and obtained the designation of an exchange-traded fund (“ETF”) from the Stock Exchange.

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 2004, the NAV per unit of the Fund stood at HK\$25.43 with a total number of 34,400,000 units outstanding, giving the Fund a total size of HK\$874,779,224.

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

	MSCI China Index	NAV	Total Outstanding Units	Total Net Asset
31st December 2003	25.49	25.65	27,600,000	707,946,146
31st December 2004	25.31	25.43	34,400,000	874,779,224
Period Return	(0.71%)	(0.86%)	N/A	N/A

During the period under review, the total size of the Fund rose by 23.57% amidst healthy creation and redemption activities. The Benchmark Index exhibited significant volatility over the course of 2004 and ended up with a slight loss of 0.71%. The Fund’s NAV started the year at HK\$25.65, reaching a high of HK\$27.29 on 5th January before sliding to a low of HK\$19.33 by 17th May before recovering to HK\$25.43 to finish off the year. The Fund recorded a slight underperformance in returning a loss of 0.86% and made a distribution of HK\$20,640,000 of income, which was equivalent to HK\$0.6 per unit on 22nd December 2004. 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

Two addenda were issued to the prospectus of the Fund in 2004. In the first addendum dated 14th April 2004, we disclosed that Mr. Nigel Grenville Williams was appointed as director of the Manager on 1st January 2004. In the second addendum dated 1st November 2004, we disclosed that due to the acquisition of The Bank of Bermuda Group by HSBC Holdings Plc and the subsequent Group reorganization, the name of Bermuda Trust (Far East) Limited has been changed to HSBC Institutional Trust Services (Asia) Limited.

FUND ACTIVITIES

The average daily trading volume for the Fund during the period under review was reported by Bloomberg to be 234,926 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 Hong Kong Securities Limited and Citigroup Global Markets Asia Limited.

As far as the primary market is concerned, the Fund experienced healthy creation and redemption activities as a result of the growing recognition of the Fund and the performance of the China market. In response to the strong market movement, there were 12 creations and 1 redemption with a total of 16,200,000 new units created during the first quarter. There were subsequently 2 creations and 10 redemptions after market started to correct. All together, there were still net creations of 6,800,000 units during the whole year. Details of which are given as follows:

Report of the Manager to the Unitholders (continued)

FUND ACTIVITIES (continued)

Date of Order	Units Created/(Redeemed)
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)
14th July 2004	(1,800,000)
18th August 2004	(400,000)
8th September 2004	(1,000,000)
15th October 2004	(400,000)
27th October 2004	(400,000)
28th October 2004	(200,000)
12th November 2004	(200,000)
17th November 2004	(200,000)

On 24th November 2004, the Fund announced that the final distribution of the annual dividend payment per unit of HK\$0.6. The ex-dividend date was 8th December 2004 and the record date was 9th December 2004. The payable date of the dividend was on 22nd December 2004.

INDEX ACTIVITIES

The Benchmark Index underwent four regular quarterly reviews in 2004. 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

Report of the Manager to the Unitholders (continued)

INDEX ACTIVITIES (continued)

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 Property and Casualty (stock code: 2328), Maanshan Iron and Steel (stock code: 323), Anhui Conch Cement (stock code: 914), BYD Company (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. In the third and fourth review that took place at the end of August and November respectively, there was no addition and deletion.

Moreover, four IPOs were added to the Benchmark Index during the year. 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. Semiconductor Manufacturing International Corp (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. Ping An Insurance (stock code 2318) was added as of the close of 8th July 2004 (effective 9th July 2004), with 2,558,643,698 shares and a Foreign Inclusion Factor (FIF) of 0.50.

Under a Distribution in Specie of Shares, TCL International Holdings (stock code: 1070) spun off its mobile handset unit into TCL Communication Technology (stock code 2618). In order to adjust for the spin-off, TCL Int'l Holdings (Detached) was added temporarily to the Benchmark Index with 2,733,366,000 shares and a FIF of 0.45. The difference between the closing price of 21st September 2004 and the closing price of 22nd September 2004 of TCL International Holdings was used as the price of TCL Int'l Holdings (Detached) and the price was unchanged until TCL Communication Technology started trading on 27th September 2004. On 27th September 2004, a Price Adjustment Factor (PAF) was applied to TCL Int'l Holdings (Detached) based on terms of the spin-off and the price of TCL Communication Technology was used for TCL Int'l Holdings (Detached). As of the close of 27th September 2004, the number of shares for TCL Int'l Holdings (Detached) was changed from 2,733,366,000 to 1,093,346,400 for the PAF calculation. Thereafter, TCL Int'l Holdings (Detached) was deleted from the Benchmark Index as of the close of 27th September 2004 (effective on 28th September 2004). Simultaneously, TCL Communication Technology was added to the Benchmark Index as of the close of 27th September 2004, with 2,827,500,000 shares and a Foreign Inclusion Factor (FIF) of 0.20.

In view of these changes, the Fund made rebalancing trades accordingly following both reviews. As of the close of 31st December 2004, there were 60 stocks in the Benchmark Index.

Report of the Manager to the Unitholders (continued)

MARKET REVIEW

The global equities markets were marked by an across-the-board recovery in Year 2004. The MSCI World Index gained a respectable 12.84% during the year. As for the Asian markets, the MSCI EMF Asia Index rose by 12.23% whilst the MSCI Pacific Index increased by 17.19%. The US economy was back on an expansionary track with deflationary threat receding in the first quarter. On 30th June 2004, the Federal Reserve's Open Market Committee raised the US interest rate to 1.25%, almost exactly one year after the recent record low rate of 1% was put in place in 2003. This marked the beginning of a wave of rate hikes around the world. As of 31st December 2004, the US prime interest rate reached the 2.25% level attained back in 2001. In South Asia, the deadly Tsunami that claimed more than 150,000 lives turned out to have minimal impact on the Asian equity markets at the time of the writing of this report.

The global currency markets were very volatile during the period under review. The effect of record high twin current account and trade deficits dogged the US dollar throughout the year. The dollar carried over its slide against major currencies in the beginning of 2004 with the Euro hitting the then record of 1.2842 to 1 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. Midway through the year, the Euro and the Yen registered a loss of 3.14% and 1.45% respectively while the GBP gained 1.93% against the USD.

However, starting from October onwards, the market again focused on the structural issue and the perceived weak dollar policy of the re-elected George W. Bush administration despite it claiming otherwise. The dollar suffered from a major slide against other major currencies. The Euro kept breaking records and reached the 1.3637 to 1 USD level on 30th December 2004. Similarly, the Sterling reached 1.9467 whereas the JPY hit 102.08 on 20th December 2004 and 3rd December 2004, respectively. In terms of percentage, the Euro, GBP and JPY appreciated by 7.61%, 7.41% and 4.28% against the USD respectively.

In Hong Kong, the optimism at the start of 2004 gave way to uncertainties towards the end of June. Nevertheless, the market rebounded significantly in the second half of the year. 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, particularly in the luxury segment of the market which was estimated to have gone up over 30%. Unemployment rate also continued to decline, albeit slowly. Likewise, CPI decline also narrowed, registering only a modest contraction since the end of last year.

Report of the Manager to the Unitholders (continued)

MARKET REVIEW (continued)

Across the border, various macro-tightening policies were put in place in March to curb over-capacities, inflation and the skyrocketing property prices. The effect of the poor mainland equity markets proved to have selective effect on Hong Kong equities. The H-shares were affected the most and the representative Hang Seng China Enterprise Index registered a loss of 5.55%. At the same time, the blue chip Hang Seng Index gained 13.15% whilst the Red Chips, as measured by the Hang Seng China Affiliated Corporation Index, rose 9.05%. The Fund's Benchmark Index, which is composed of both H-shares and Red Chips, registered a slight loss of 0.71% during the period under review. This proves again the advantage of diversification.

Looking ahead, we expect to see continued volatilities in the global marketplace. The large imbalance of current accounts across the globe, post-war development in Iraq and the sustainability of the growth story will likely continue to impact all major markets significantly. The uncertainty of a soft or hard landing in the mainland Chinese economy will further cloud the global picture.

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, as amended, for the year ended 31st December 2004.

HSBC Institutional Trust Services (Asia) Limited

18 April 2005

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, as amended, 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 2004, the Trust has established two sub-funds, namely iShares MSCI China Tracker (the "Fund") and iShares FTSE/Xinhua A50 China Tracker. No financial statements is prepared for iShares FTSE/Xinhua A50 China Tracker as at 31st December 2004 since its inception date was on 18th November 2004 and its financial statements will be prepared in first accounting year as at 31st December 2005.

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:

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

MANAGER'S RESPONSIBILITIES (continued)

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.

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 securities, the difference in the Fund's net asset value as at 31st December 2004 would have been as follows:

	2004 HK\$
Net asset value at last traded prices	866,940,200
Adjustment to bid market prices	<u>(3,741,000)</u>
Adjusted net asset value at bid market prices	<u><u>863,199,200</u></u>

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

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 MSCI China Tracker (the “Fund”) which is a sub-fund of iShares Asia Trust as of 31st December 2004 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 14 to 18 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 Fund as of 31st December 2004 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, 18 April 2005

Statement of Assets and Liabilities
iShares MSCI China Tracker
(a sub-fund of iShares Asia Trust)
As at 31st December 2004

	Note	2004 HK\$	2003 HK\$
ASSETS			
Securities		866,940,200	706,817,840
Bank balances	5(c)	9,799,329	2,171,895
Total assets		876,739,529	708,989,735
LIABILITIES			
Management fee payable		1,957,973	965,589
Other accounts payable		2,332	78,000
Total liabilities		1,960,305	1,043,589
Net assets		874,779,224	707,946,146
Financed by:			
Capital account		874,779,224	707,946,146
Units in issue	4	34,400,000	27,600,000
Net asset value per unit		25.43	25.65

Approved by the Trustee and the Manager on 18 April 2005

HSBC Institutional Trust Services (Asia) Limited Barclays Global Investors North Asia Limited

The notes on pages 19 to 26 form part of these financial statements.

Statement of Operations
iShares MSCI China Tracker
(a sub-fund of iShares Asia Trust)
For the year ended 31st December 2004

	Note	2004 HK\$	2003 HK\$
INCOME			
Dividend income		25,045,842	9,020,604
EXPENSES			
Management fee	5(a)	(9,131,048)	(2,748,299)
Transaction handling fee	5(b)	(76,295)	(15,202)
Bank charges	5(b)	(234,580)	(53,651)
		<u>(9,441,923)</u>	<u>(2,817,152)</u>
Net operating income		<u>15,603,919</u>	<u>6,203,452</u>
Net investment and exchange gain/(loss)			
Net realized gain/(loss) on sale of securities		25,725,485	(10,282,228)
Net change in unrealized gain/loss on revaluation of securities		(69,966,128)	214,052,958
Exchange gain/(loss)		3,802	(419)
		<u>(44,236,841)</u>	<u>203,770,311</u>
Net (loss)/income for the year		(28,632,922)	209,973,763
Amount transferred to the statement of distributions		(20,640,000)	(11,872,000)
Amount transferred from/(to) the capital account		49,272,922	(198,101,763)
		<u>—</u>	<u>—</u>
		<u><u>—</u></u>	<u><u>—</u></u>

The notes on pages 19 to 26 form part of these financial statements.

Statement of Changes in Capital
iShares MSCI China Tracker
(a sub-fund of iShares Asia Trust)
For the year ended 31st December 2004

	Note	2004 HK\$	2003 HK\$
		<u> </u>	<u> </u>
Balance at the beginning of the year		707,946,146	272,344,383
Proceeds on issue of units			
- in-kind	6	464,278,915	336,194,040
- cash component	6	2,793,085	6,017,960
Payment on redemption of units			
- in-kind	6	(247,868,725)	(104,009,470)
- cash component	6	<u>(3,097,275)</u>	<u>(702,530)</u>
		924,052,146	509,844,383
Amount transferred (to)/from the statement of operations net of distributions		<u>(49,272,922)</u>	<u>198,101,763</u>
Balance at the end of the year		<u><u>874,779,224</u></u>	<u><u>707,946,146</u></u>

The notes on pages 19 to 26 form part of these financial statements.

Statement of Cash Flows
iShares MSCI China Tracker
(a sub-fund of iShares Asia Trust)
For the year ended 31st December 2004

	Note	2004 HK\$	2003 HK\$
		<u> </u>	<u> </u>
OPERATING ACTIVITIES			
Net operating income		15,603,919	6,203,452
Increase in management fee payable		992,384	364,139
Exchange gain/(loss)		3,802	(419)
(Decrease)/increase in other accounts payable		(75,668)	78,000
Net cash inflow from operating activities		<u>16,524,437</u>	<u>6,645,172</u>
INVESTING ACTIVITIES			
Purchase of securities	6	(273,657,072)	(7,798,528)
Sale of securities	6	285,704,259	8,986,068
Net cash inflow from investing activities		<u>12,047,187</u>	<u>1,187,540</u>
FINANCING ACTIVITIES			
Cash component received on issue of units	6	2,793,085	6,017,960
Cash component paid on redemption of units	6	(3,097,275)	(702,530)
Final distribution paid	10	(20,640,000)	(11,872,000)
Net cash outflow from financing activities		<u>(20,944,190)</u>	<u>(6,556,570)</u>
Increase in cash and cash equivalents		7,627,434	1,276,142
Cash and cash equivalents at the beginning of the year		<u>2,171,895</u>	<u>895,753</u>
Cash and cash equivalents at the end of the year		<u><u>9,799,329</u></u>	<u><u>2,171,895</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS:			
Bank balances		<u>9,799,329</u>	<u>2,171,895</u>

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

The notes on pages 19 to 26 form part of these financial statements.

Statement of Distributions
iShares MSCI China Tracker
(a sub-fund of iShares Asia Trust)
For the year ended 31st December 2004

	Note	2004 HK\$	2003 HK\$
		<u> </u>	<u> </u>
Amount transferred from the statement of operations		20,640,000	11,872,000
Final distribution			
- HK\$0.53 on 22,400,000 units paid on 17th December 2003	10	—	(11,872,000)
- HK\$0.60 on 34,400,000 units paid on 22nd December 2004	10	<u>(20,640,000)</u>	<u> </u>
		<u> </u>	<u> </u>
		<u> </u>	<u> </u>

The notes on pages 19 to 26 form part of these financial statements.

Notes to the Financial Statements

1 THE TRUST

iShares Asia Trust (the “Trust”) is an umbrella unit trust governed by its Trust Deed dated 16th November 2001, as amended, and authorised by the Securities & Futures Commission of Hong Kong (the “SFC”) pursuant to Section 104(1) of the Securities and Futures Ordinance.

As at 31st December 2004 the Trust has established two sub-funds, namely iShares MSCI China Tracker (the “Fund”) and iShares FTSE/Xinhua A50 China Tracker. No financial statements is prepared for iShares FTSE/Xinhua A50 China Tracker as at 31st December 2004 since its inception date was on 18th November 2004 and its financial statements will be prepared in first accounting year as at 31st December 2005. These financial statements are in respect of iShares MSCI China Tracker only.

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 securities.

(b) Securities

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 International Accounting Standard 39 – Financial Instruments: Recognition and Measurement (“IAS 39”) which requires listed investment securities to be valued based on quoted bid prices. The Trustee and the Manager

Notes to the Financial Statements (continued)

2 PRINCIPAL ACCOUNTING POLICIES (continued)

(b) Securities (continued)

have considered the reasons behind the decision and considered that the valuation policy adopted by the Fund is more reflective of the fair value basis for the Fund. The Trustee and the Manager have also considered the impact of the different bases adopted by the Fund on the Fund's net asset value and considered that the amount resulting from the different bases adopted is not significant to the Fund's net asset value.

Purchases and sales of investments are accounted for on trade dates. Realized and unrealized gains and losses on securities are recognized in the statement of operations as they arise.

(c) Dividend and 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 Fund'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.

Notes to the Financial Statements (continued)

2 PRINCIPAL ACCOUNTING POLICIES (continued)

(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 Fund 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 realized gains on disposal of investments of the Fund 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	
	2004	2003
Units in issue at the beginning of the year	27,600,000	19,200,000
Issue of units	18,000,000	15,200,000
Redemption of units	(11,200,000)	(6,800,000)
Units in issue at the end of the year	<u>34,400,000</u>	<u>27,600,000</u>

Notes to the Financial Statements (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 year between the Fund 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 Fund 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 Fund are paid by the Manager.

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

With effect from 1st July 2004, the Custodian reduces transaction handling fees for the sale and purchase transactions of the securities received from the Fund from US\$75 to US\$ 50 each. Bank charges stated in the statement of operations are also paid by the Fund 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 31st December 2004 was HK\$9,799,329 (2003: HK\$2,171,895).

Notes to the Financial Statements (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 year, all units issued were through in kind creation and the Fund issued 18,000,000 units (2003: 15,200,000 units) in exchange for Application Baskets consisting of investments valued at a total of HK\$464,278,915 (2003: HK\$336,194,040) by the Manager at the time of issue plus the cash component equal to HK\$2,793,085 (2003: HK\$6,017,960).

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 11,200,000 units (2003: 6,800,000 units) in exchange for Application Baskets consisting of investments valued at a total of HK\$247,868,725 (2003: HK\$104,009,470) by the Manager at the time of redemption plus the cash component equal to HK\$3,097,275 (2003: HK\$702,530).

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 securities for

Notes to the Financial Statements (continued)

7 SOFT DOLLAR BENEFITS (continued)

the Fund will not be retained for their own use but will be credited to the Fund. 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:

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 2004 were as follows:

	Respective weighting in the Index (%)		% of net asset value	
	2004	2003	2004	2003
China Mobile (Hong Kong) Ltd	19.27	23.26	19.70	22.77

Notes to the 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 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\$866,940,200 (2003: HK\$706,817,840) as at year end.

Details of the market exposures as at 31st December 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 the Financial Statements (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 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\$20,640,000 with respect to 34,400,000 units, which was equivalent to HK\$0.60 per unit on 22nd December 2004. During 2003, the Fund made a distribution of HK\$11,872,000 with respect to 22,400,000 units, which was equivalent to HK\$0.53 per unit on 17th December 2003.

Investment Portfolio

iShares MSCI China Tracker

(a sub-fund of iShares Asia Trust)

As at 31st December 2004

Investments (99.1%)	Holdings	Market Value HK\$	% of net assets
Listed Equities (99.1%)			
China (51.73%)			
Aluminum Corporation of China Ltd — H	3,440,000	15,824,000	1.81
Angang New Steel Co Ltd — H	1,720,000	6,794,000	0.78
Anhui Conch Cement Co Ltd — H	688,000	5,813,600	0.66
Avichina Industry & Technology Co Ltd — H	2,064,000	1,506,720	0.17
BYD Co Ltd — H	172,000	3,543,200	0.41
China Petroleum & Chemical Corporation (Sinopec) — H	18,232,000	58,342,400	6.67
China Shipping Container Lines Company Ltd — H	1,720,000	5,375,000	0.61
China Shipping Development Co Ltd — H	2,064,000	14,241,600	1.63
China Southern Airlines Co Ltd — H	1,720,000	5,289,000	0.60
China Life Insurance Co Ltd — H	8,772,000	45,614,400	5.21
China Telecom Corp Ltd — H	17,888,000	50,980,800	5.83
Datang Intl Power Gen Co Ltd (previously known as Beijing Datang Power Gen Co Ltd) — H	2,064,000	12,074,400	1.38
Guangshen Railway Co Ltd — H	2,064,000	6,553,200	0.75
Huaneng Power Intl Inc — H	4,128,000	23,942,400	2.74
Jiangsu Expressway Co Ltd — H	2,064,000	7,069,200	0.81
Maanshan Iron & Steel Co Ltd — H	2,752,000	8,256,000	0.94
Petrochina Co Ltd — H	20,984,000	87,083,600	9.95
Picc Property and Casualty Co Ltd — H	3,440,000	9,288,000	1.06
Ping An Insurance (Group) Co of China Ltd — H	1,720,000	22,704,000	2.60
Qingling Motors Co Ltd — H	2,064,000	2,456,160	0.28
Sinopec Shanghai Petrochemical Co Ltd — H	4,128,000	11,971,200	1.37
Sinopec Yizheng Chemical Fibre Co Ltd — H	2,752,000	4,540,800	0.52
Sinotrans Ltd — H	1,892,000	4,304,300	0.49
Travelsky Technology Ltd — H	516,000	3,250,800	0.37
Weiqiao Textile Co Ltd — H	774,000	9,481,500	1.08
Yanzhou Coal Mining Co Ltd — H	1,376,000	15,273,600	1.75
Zhejiang Expressway Co Ltd — H	2,064,000	11,042,400	1.26
		452,616,280	51.73

Investment Portfolio (continued)

iShares MSCI China Tracker

(a sub-fund of iShares Asia Trust)

As at 31st December 2004

	Holdings	Market Value HK\$	% of net assets
Hong Kong (47.37%)			
Beijing Enterprises Hldgs Ltd	344,000	3,973,200	0.45
Brilliance China Automotive Holding Ltd	3,096,000	4,705,920	0.54
China Everbright Ltd	1,032,000	4,076,400	0.47
China Merchants Hldgs Intl Co Ltd	1,376,000	20,158,400	2.30
China Mobile (Hong Kong) Ltd	6,536,000	172,223,600	19.70
China Overseas Land & Investment Ltd	4,472,000	8,586,240	0.98
China Resources Enterprise Ltd	1,376,000	16,718,400	1.91
China Resources Land Ltd	1,376,000	1,816,320	0.21
China Travel Intl Inv HK Ltd	2,752,000	6,880,000	0.79
Citic Pacific Ltd	1,548,000	34,210,800	3.91
Cnooc Ltd	16,512,000	68,937,600	7.88
Cosco Pacific Ltd	1,376,000	22,153,600	2.53
Denway Motors Ltd	4,128,000	11,455,200	1.31
Lenovo Group Ltd ORD	4,816,000	11,197,200	1.28
Semiconductor Manufacturing Intl Corp	7,568,000	12,789,920	1.46
Shanghai Industrial Hldgs Ltd	516,000	8,565,600	0.98
Shenzhen Investment Ltd	2,064,000	2,435,520	0.28
TCL International Hldgs Ltd	1,720,000	3,440,000	0.39
		<hr/> 414,323,920	47.37
Total Investments		866,940,200	99.10
Other Net Assets		7,839,024	0.90
Net Assets At 31 December 2004		<hr/> 874,779,224	100.00
Total Investments, At Cost		<hr/> <hr/> 768,553,568	

Statement of Movements in Investment Portfolio
iShares MSCI China Tracker
(a sub-fund of iShares Asia Trust)
For the year ended 31st December 2004

	2003	Holdings		2004
		Additions	Disposals	
Investments				
Listed Equities				
China				
Aluminum Corporation of China Ltd — H	2,760,000	2,968,000	2,288,000	3,440,000
Angang New Steel Co Ltd — H	—	2,030,000	310,000	1,720,000
Anhui Conch Cement Co Ltd — H	—	812,000	124,000	688,000
Avichina Industry & Technology Co Ltd — H	—	9,736,000	7,672,000	2,064,000
Byd Co Ltd — H	—	203,000	31,000	172,000
China Petroleum & Chemical Corporation (Sinopec) — H	15,180,000	11,956,000	8,904,000	18,232,000
China Shipping Container Lines Company Ltd — H	—	1,950,000	230,000	1,720,000
China Shipping Development Co Ltd — H	1,932,000	1,520,000	1,388,000	2,064,000
China Southern Airlines Co Ltd — H	1,656,000	1,340,000	1,276,000	1,720,000
China Life Insurance Co Ltd — H	—	14,286,000	5,514,000	8,772,000
China Telecom Corp Ltd — H	11,316,000	13,174,000	6,602,000	17,888,000
Datang Intl Power Gen Co Ltd (previously known as Beijing Datang Power Gen Co Ltd) — H	2,208,000	1,878,000	2,022,000	2,064,000
Guangshen Railway Co Ltd — H	3,588,000	3,700,000	5,224,000	2,064,000
Huaneng Power Intl Inc — H	2,484,000	5,012,000	3,368,000	4,128,000
Jiangsu Expressway Co Ltd — H	2,484,000	1,324,000	1,744,000	2,064,000
Maanshan Iron & Steel Co Ltd — H	—	3,248,000	496,000	2,752,000
Petrochina Co Ltd — H	20,450,000	14,758,000	14,224,000	20,984,000
PICC Property and Casualty Co Ltd — H	—	4,028,000	588,000	3,440,000
Ping An Insurance (Group) Co of China Ltd — H	—	1,950,000	230,000	1,720,000
Qingling Motors Co Ltd — H	1,656,000	1,794,000	1,386,000	2,064,000
Sinopec Shanghai Petrochemical Co Ltd — H	4,692,000	3,964,000	4,528,000	4,128,000
Sinopec Yizheng Chemical Fibre Co Ltd — H	2,484,000	2,268,000	2,000,000	2,752,000
Sinotrans Ltd — H	2,208,000	1,283,000	1,599,000	1,892,000
Travelsky Technology Ltd — H	552,000	718,000	754,000	516,000
Weiqiao Textile Co Ltd — H	—	1,522,500	748,500	774,000
Yanzhou Coal Mining Co Ltd — H	1,656,000	904,000	1,184,000	1,376,000
Zhejiang Expressway Co Ltd — H	2,484,000	1,828,000	2,248,000	2,064,000

Statement of Movements in Investment Portfolio
iShares MSCI China Tracker (continued)
(a sub-fund of iShares Asia Trust)
For the year ended 31st December 2004

	2003	Holdings		2004
		Additions	Disposals	
Investments (continued)				
Listed Equities (continued)				
Hong Kong				
Beijing Enterprises Hldgs Ltd	552,000	640,000	848,000	344,000
Brilliance China Automotive Holding Ltd	3,036,000	1,920,000	1,860,000	3,096,000
China Everbright Ltd	828,000	540,000	336,000	1,032,000
China Merchants Hldgs Intl Co Ltd	1,380,000	900,000	904,000	1,376,000
China Mobile (Hong Kong) Ltd	6,762,000	4,116,500	4,342,500	6,536,000
China Overseas Land & Investment Ltd	3,588,000	3,440,000	2,556,000	4,472,000
China Resources Enterprise Ltd	1,380,000	1,170,000	1,174,000	1,376,000
China Resources Land Ltd	1,104,000	1,544,000	1,272,000	1,376,000
China Travel Intl Inv HK Ltd	2,760,000	1,624,000	1,632,000	2,752,000
China Travel Intl Inv HK Ltd WTS 31/05/2006	–	802,800	802,800	–
Citic Pacific Ltd	1,518,000	960,000	930,000	1,548,000
Cnooc Ltd	2,484,000	19,423,000	5,395,000	16,512,000
Cosco Pacific Ltd	1,656,000	904,000	1,184,000	1,376,000
Denway Motors Ltd	3,036,000	6,970,000	5,878,000	4,128,000
Lenovo Group Ltd ORD	4,692,000	2,824,000	2,700,000	4,816,000
Semiconductor Manufacturing Intl Corp	–	9,792,000	2,224,000	7,568,000
Shanghai Industrial Hldgs Ltd	828,000	582,000	894,000	516,000
Shenzhen Investment Ltd	1,380,000	2,906,000	2,222,000	2,064,000
TCL Communication Tech Holdings Ltd NPV	–	716,000	716,000	–
TCL International Hldgs Ltd	1,656,000	1,080,000	1,016,000	1,720,000

Performance Record

iShares MSCI China Tracker

(a sub-fund of iShares Asia Trust)

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
31st December 2004	25.43	874,779,224
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
31st December 2004	27.29	19.33

Management and Administration

Directors of the Manager

Andrew Graham Skirton
Francis Sean Ryan
Nigel Grenville Williams
(appointed on 1st January 2004)
Robert J. Haber
Joseph Ho

Trustee and Custodian

HSBC Institutional Trust Services (Asia) Limited
1 Queen's Road Central
Hong Kong

Registrar

Hong Kong Registrars Limited
46/F Hopewell Centre
183 Queen's Road East
Wanchai
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
Charter Road
Central
Hong Kong

Auditor

PricewaterhouseCoopers
22nd Floor
Prince's Building
Central
Hong Kong