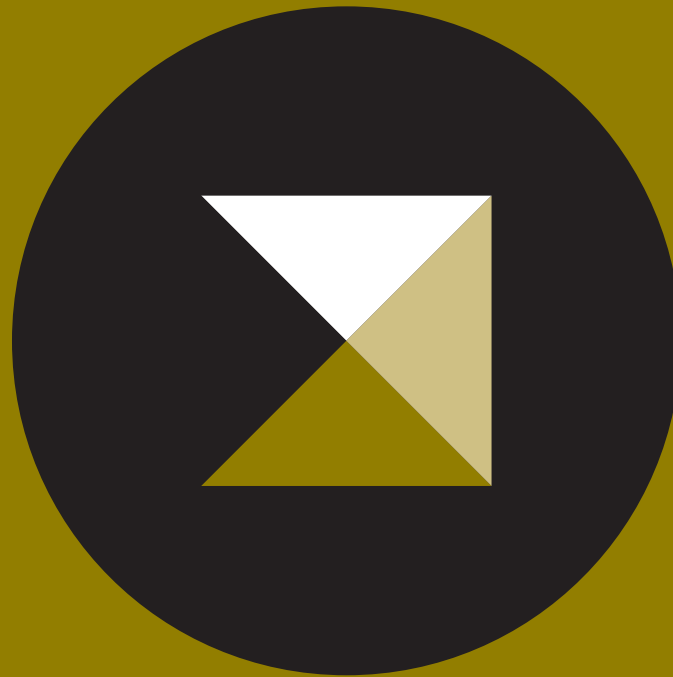


2004  
SMARTSHARES ANNUAL REPORT





## Financial Statements 31 December 2004

Presented by NZX Funds Management Limited, manager of the TENZ Smartshares (NZSX 10 Fund), MIDZ Smartshares (NZSX MidCap Index Fund), FONZ Smartshares (NZSX 50 Portfolio Fund) and MOZY Smartshares (NZX Australian MidCap Index Fund).

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2004 was a year of growth for Smartshares. Total funds under management reached \$192 million as at 31 December 2004, spread across four funds by the end of the year. Investor numbers in Smartshares was 10,386 at the same time. Most of the growth in funds under management happened in the last quarter.

This needs to be put into context with the fact that in 2004 the managed funds industry in New Zealand saw a net outflow of funds under management for the year. However exchange traded funds are a very strong category internationally (169 ETFs trade on the US market alone with an underlying value of US\$169 billion). So you can see not only how far we have come, but how far we still have to go.

New Zealand was one of the first markets to list an ETF in 1996 with the NZSX 10 Fund (TENZ), the first official member of the Smartshares family. The acquisition of the New Zealand MidCap Index Fund (MIDZ), the Australian MidCap Index Fund (MOZY) from ABN AMRO Craigs in 2004 and the launch of the NZSX 50 Portfolio Index Fund (FONZ), now means that Smartshares investors have a much greater range of options to achieve diversification.

The performance of all Smartshares funds have been assisted by strong New Zealand and Australian economies. In the past three years both the New Zealand and Australian sharemarkets, as measured by the NZSX All Index and S&P/ASX All Ordinaries Index, increased on average by 10.9% and 6.45% per year respectively.

New investor numbers, which reached 10,386 by end of 2004, were boosted in no small part by the most recent addition to the Smartshares stable – the launch of FONZ (Fifty of New Zealand). In launching FONZ, NZXFM recognised that more was required

to encourage new investors (who had in the past been excluded from the sharemarket by a variety of factors) to benefit from asset ownership outside more conventional investments such as property and unlisted finance company debt. NZXFM launched the FONZ Fund in December 2004, raising \$17.2m. In addition to offering the same benefits as other Smartshares funds – relatively low entry threshold, low fees, high yield, diversification and tax efficiency – investors in the FONZ IPO gained access to a savings plan, enabling them to dedicate as little as \$50 a month to increase their FONZ holdings, with an opt-out dividend reinvestment function.

It is fair to say that we had not anticipated such a large uptake for our first Smartshares savings plan. Around 70% of all FONZ investors took advantage of the plan, suggesting that perhaps New Zealanders are not non-savers at all, they are merely latent ones. This augurs well for government plans to mandate workplace savings provision in the very near future.

The consensus of industry experts is that the market performance in 2005 is likely to be positive. Whilst this gives us encouragement on index performance, Smartshares will not simply ride the wave. There is a great deal more for Smartshares to do, for investors and employers, for market participants and the companies represented in the indices. And, not least, for New Zealanders, who are seeking to share in the benefits of owning a high performance piece of the local – and global – economy.

Thank you for choosing Smartshares. We believe you have made a smart investment choice, and we will be continuing to communicate how you can further enhance your investments over 2005.

DON TROW, CHAIRMAN


# INTRODUCING SMARTSHARES

Smartshares are exchange traded funds (ETFs) made up of a portfolio of shares which mirror a particular Index. Each Smartshares unit represents an investment in shares of the companies that make up that index. Smartshares can be bought and sold through an NZX Advisor, just like shares.

There are currently four Smartshares funds to choose from, offering you an easy way to create a diversified investment in both the New Zealand and Australian sharemarkets.

 **TENZ** is the easy way to invest in the New Zealand sharemarket's "blue chip" companies. When you buy TENZ, you buy exposure to all the companies in the NZSX 10 Index – the 10 largest domestic companies by free float market capitalisation listed on the NZSX Market. TENZ companies are among New Zealand's biggest and most successful corporations.

 **MIDZ** is the easy way to invest in a portfolio of medium sized New Zealand companies. When you invest in MIDZ you buy units which represent an investment in each company in the NZSX MidCap Index (all the companies in the NZSX 50 Index, excluding overseas companies and those in the NZSX 10 Index). MIDZ companies represent a dynamic cross section of the New Zealand economy.

 **FONZ** is the easy way to 'buy the market'. When you invest in FONZ, you buy units in a diversified portfolio of shares in the top fifty companies listed on the NZSX Market. These include some of New Zealand's most established and highly regarded companies.

 **MOZY** is the easy way to invest in the Australian sharemarket. When you invest in MOZY, you buy units in a diversified portfolio of 50 medium sized Australian companies listed on the ASX. Many of the companies are well known to New Zealand investors such as Foodland Associated Ltd, Toll Holdings Ltd and Harvey Norman Ltd.

Regardless of which Smartshares you own, you will always benefit from the following features, that are hard to find in other investment products;

- 1. Diversification.**  
Buy into any of our Smartshares funds and you've instantly spread your money across a diversified share portfolio. You can hold a diverse share portfolio with one purchase.
- 2. Dual performance potential.**  
With Smartshares you can benefit from both dividends (income) and capital growth (share price gain). Furthermore, your investment always tracks an index so performance is transparent.
- 3. Flexibility.**  
Smartshares offers the exposure of a fund, with the flexibility of a share. You can buy and sell Smartshares just like ordinary shares, through any NZX Advisor (i.e. your broker) in one simple transaction.
- 4. Low management fees.**  
All our Smartshares funds have management fees less than 1% per year with many investors paying just 0.75% or less.
- 5. Less tax.**  
Smartshares funds pay no tax on share price gains.

But that's not all. Throughout 2005 we have plans to enhance the Smartshares range with some additional features designed to make your investment work harder for you. Here's a sneak preview of some of the things we have planned:

#### **Regular Savings Plan**

We will soon be offering a regular savings plan on all our current Smartshares funds, enabling you to top up your investment automatically, by making affordable monthly deposits which we will transfer into shares in your fund. Whats more, you pay no brokerage or transaction fees.

#### **Investor Education**

To ensure you keep informed and up to date on whats going on in the sharemarket, we will soon be providing all Smartshares investors with a unique quarterly communication, called SMART. SMART will keep you informed on what's happening in companies you are investing in, regularly update you on your investment value, and give you education on some key concepts relating to the sharemarket.

So take your time to look through this report on all our Smartshares funds. Should you have any questions please visit [www.smartshares.nzx.com](http://www.smartshares.nzx.com), email [smartshares@nzx.com](mailto:smartshares@nzx.com) or call our friendly Smartshares team on **0800 80 87 80**. And remember, if you would like to buy or sell units in any of the Smartshares funds, please contact any NZX Advisor.

# PERFORMANCE OF YOUR SMARTSHARES

The following section covers the performances of each of the Smartshares funds for the period ended 31 December 2004.

## SMART INFO:

For those new to the sharemarket we thought we'd explain a little more about the performance of Smartshares. Your investment return is basically made up of two key components\*:

- 1. Share price gains** –the net increase in the prices of all the shares in your Smartshares fund. For TENZ Smartshares this was 12.15% in 2004.
- 2. Dividend payments** – the dividends paid by companies in your Smartshares fund. For TENZ this was 6.99 cents per TENZ unit, representing a total dividend yield of 5.88% for 2004.

Therefore the total return for TENZ Smartshares in 2004 was 18.02%.

When you look at performance, we believe a long term view is always best, particularly if you intend to build an investment portfolio over a few years or more. On this basis, Smartshares is an excellent way to save long term because Smartshares provide diversification across companies, industries and even countries. So if some companies perform poorly, often there will be others that perform well maintaining a solid foundation for your investment portfolio over time.

\* Please note, past performance is no guarantee of future returns.

# TENZ SMARTSHARES

NZSX 10 Fund (TENZ) – Performance for the financial year ended 31 December 2004

## FUND PERFORMANCE

The NZSX 10 Fund (TENZ) had another excellent performance over 2004 returning 12.15% before the payment of any dividends. The total dividend for the 12 months to 31 December 2004 was 6.99 cents gross per unit. This was made up of a dividend of 2.776 cents gross per unit paid in March and another of 4.215 cents gross per unit paid in September 2004. This equates to a gross dividend yield of 5.88% based on the market price at the end of 2004 (Market price at end of 2004: \$1.19).

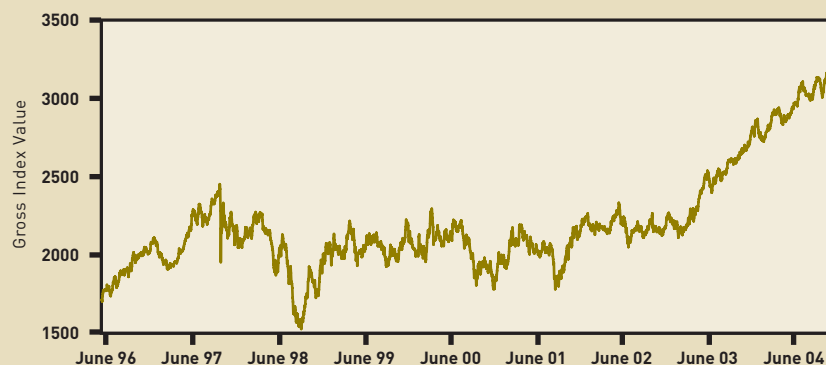
TENZ now has 70.4 million units on issue with a market capitalisation of \$83.9 million as at 31 December 2004.

## INDEX PERFORMANCE

The NZSX 10 Gross Index (which TENZ tracks), including any dividends paid, increased by 19.63% over 2004. Over the last 5 years the NZSX 10 Gross Index has had an annualised return of 8.81% per annum.

There were a number of changes to the Index's constituent companies over 2004. Sky Network Television Ltd exited the Index at the end of June to make way for Fisher & Paykel Appliances Holdings Ltd and at the end of December 2004 The Warehouse Group Ltd was replaced by Westpac (NZ) Investments Ltd.

Performance of the NZSX 10 Gross Index



Please note, past performance is no guarantee of future returns



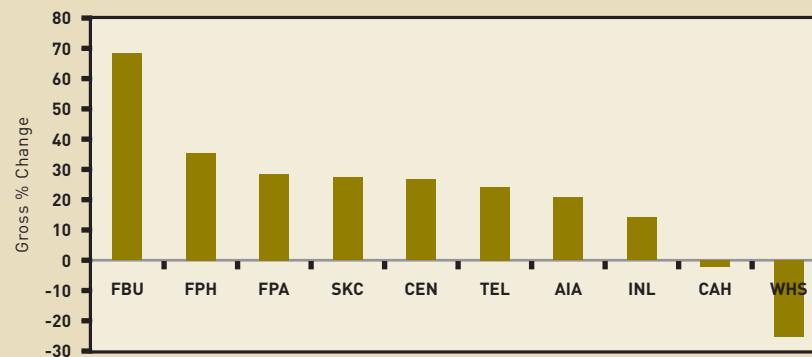
## COMPANY PERFORMANCE

There were notable performances from a number of constituent companies over 2004 with price increases recorded by Fletcher Building Ltd of 35.94%, Contact Energy Ltd 15.94%, Sky City Entertainment Group Ltd 14.31%, Telecom Corporation of New Zealand Ltd 12.68%, Auckland International Airport Ltd 12.16%, Fisher & Paykel Appliances Holdings Ltd 10.70%, and Independent Newspapers Ltd 10.43%. The gross percentage returns (which include any dividends paid) of each company in

the fund at the 31 December 2004, are shown in the graph below. Seven companies within TENZ achieved gross returns greater than 20%.

Fletcher Building Ltd continued its impressive performance in 2004 with a net profit after tax of \$240 million for the 12 months ended 30 June 2004, compared to \$168 million in the previous year. Operating earnings were up 39%, assisted by contributions from the Laminex business in its first year of ownership and the acquisition of Tasman Building Products.

**Gross % return for companies in the NZSX10 Index as at 31 Dec 2004**



Please note, past performance is no guarantee of future returns

Contact Energy Ltd had a strong performance in 2004 with a net surplus of \$144 million for the year ended 30 September 2004 allowing it to increase its dividend to shareholders. In addition it secured the Maui and Pohokura gas supply and gained resource consents to allow ongoing electricity production from Wairakei and Poihipi Geothermal power stations.

Sky City Entertainment Group Ltd had a net surplus after tax of \$121.1 million for the full year to 30 June 2004 and as a consequence increased the dividend paid to shareholders. Their expansion continued in 2004 with the acquisition of Darwin Hotel and Casino, and further increase in their New Zealand operations through a significant shareholding in Christchurch Casino, the full take over of SKYCITY Leisure and a further 15% shareholding in SKYCITY Hamilton.

## Key metrics for the financial year ended 31 December

	31 December 2004	31 December 2003	31 December 2002	31 December 2001
NZSX 10 Capital Index	1,191.53	1,062.40	878.60	917.25
Net assets per unit	\$1.1915	\$1.0624	\$0.8786	\$0.91728
Distribution per unit over year*	6.99 cents	5.36 cents	4.43 cents	4.32 cents
Number of Unitholders	3,813	4,167	4,646	5,337
Units on issue	70,445,142	78,771,153	89,420,496	98,583,617
Total value of Unitholders' funds	\$83,937,327	\$83,687,260	\$78,564,848	\$88,232,337

\* Before management fees are deducted

NZSX MidCap Index Fund (MIDZ) - Performance for the financial period ended 31 December 2004

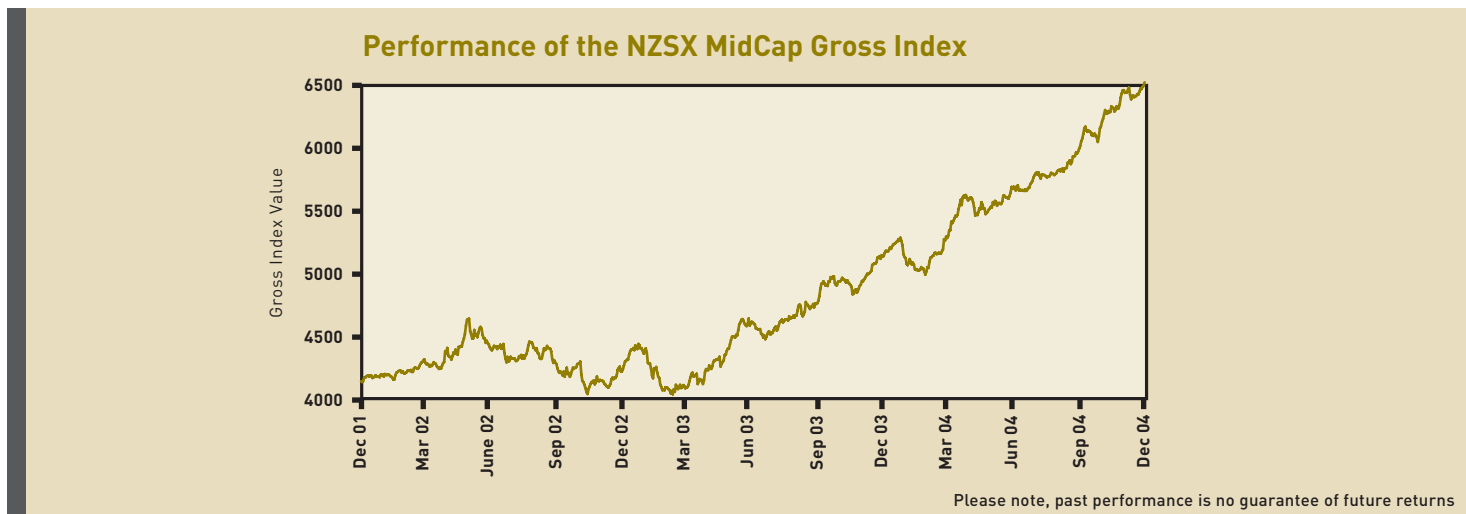
## FUND PERFORMANCE

Following on from the strong performance in 2003, the NZSX MidCap Index Fund (MIDZ) had another exceptional year in 2004. MIDZ returned 16.58% before the payment of dividends. For the full year, distributions totalled 15.76 cents gross per unit. This was made up of a dividend payment of 7.48 cents gross per unit paid in June and a dividend of 8.29 cents gross per unit paid in December. At the end of the financial year MIDZ had a gross dividend yield of 6.49% based on the market price at the end of 2004 (Market price at the end of 2004: \$2.43).

At the end of 2004 there were 18.2 million units on issue, an increase of 0.99 million units since December 2003. As at 31 December 2004 the market capitalisation of MIDZ was \$44.2 million.

## INDEX PERFORMANCE

The NZSX MidCap Gross Index has continued its upward trend in recent times. Over three of the last four years it has produced double digit positive returns. In 2004 the NZSX MidCap Gross Index increased by 28.01% for the 12 months to 31 December 2004.



# MIDZ SMARTSHARES

The change of the Index to free float at the end of June 2004, saw a marked change to the composition of constituent companies included in the Index. At the end of June 2004, Briscoe Group Ltd, Fisher & Paykel Appliances Holdings Ltd, Toll NZ Ltd, Trans Tasman Properties Ltd and Wrightson Ltd were replaced by Calan Healthcare Properties Trust, Feltex Carpets Ltd, Restaurant Brands NZ Ltd, Skellmax Industries Ltd, Sky Network Television Ltd, TrustPower Ltd and URBUS Properties Ltd. Since

that time the companies in the Index have been relatively stable. Calan Healthcare Properties Trust and URBUS Properties Ltd were replaced by Pumpkin Patch Ltd at the end of September and Mainfreight Ltd replaced Powerco Ltd following the takeover of Powerco Ltd by Prime Infrastructure Networks (New Zealand) Ltd. At the end of December 2004, Westpac (NZ) Investments Ltd moved up into the NZSX 10 Index, allowing The Warehouse Group Ltd to enter into the NZSX MidCap Index.

## SMART INFO:

**Q.** I note the NZSX MidCap Index is 'free float' – what does this mean?

**A.** Basically if you measure a company's market capitalisation value by free float, you only take into consideration the number of shares in that company that can be readily bought and sold on market. Free float excludes big blocks of shares held by large investors who hold the shares for some strategic purpose. So for example, in the NZSX MidCap Index (which MIDZ tracks) companies like Briscoe Group Ltd and Toll NZ Ltd have some large investors whose shareholdings are not counted in the index because they are not freely traded on the market. This ultimately reduces their market value calculation and leaves room for other companies like Feltex Carpets Ltd, Sky Network Television Ltd and TrustPower Ltd to come into the index. Free float means that the index is more reflective of the shares that are actually trading in the market.

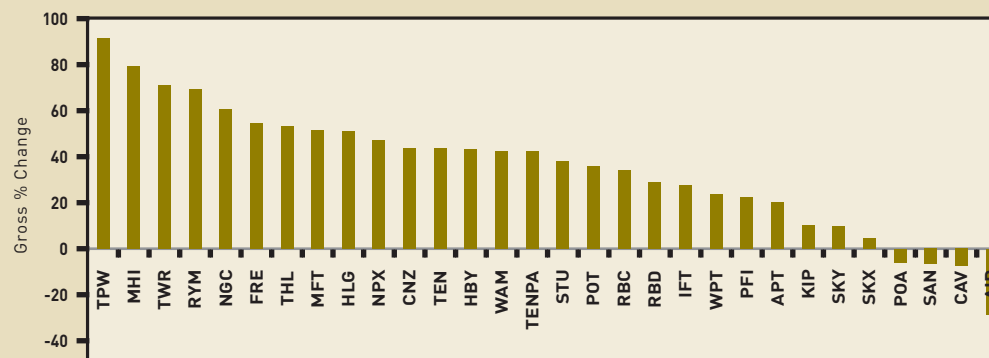
## COMPANY PERFORMANCE

The gross return of each company (which includes any dividends paid) listed in the fund throughout the entire 2004 period, is shown in the graph below. Twenty six out of the thirty two companies which were listed in the NZSX MidCap Index as at 31 December 2004 achieved positive gross returns – five of those had returns of greater than 60%. These were Trust Power Ltd 91.61%, Michael Hill

International Ltd 79.46%, Tower Ltd 71.20%, Ryman Healthcare Ltd 69.37% and NGC Holdings Ltd 60.74%.

Michael Hill International Ltd had a strong year on the back of increased profits and its continued expansion into Australia and Canada. Performance highlights include: group revenue up 15.6% to \$259.8 million; net operating cash flow up 265% to \$24.78 million; and the dividend for the 2004 year increasing 23.5% to 21 cents per share.

Gross % return for companies in the NZSX MidCap Index Fund as at 31 Dec 2004



Please note, past performance is no guarantee of future returns

Note: This graph represents the performance of the constituent companies who were in the NZSX MidCap Index as at 31 December 2004. Excluded from this graph are Feltex Carpets Ltd (FTX) and Pumpkin Patch Ltd (PPL) which listed part way through 2004.

Ryman Healthcare has continued its stellar run, with profits increasing three-fold since listing 5 years ago. Highlights of 2004 included a net surplus of \$18.4 million; dividends increasing 20% to 9.0 cents; and approximately 1,000 new shareholders being welcomed to the company register.

(MIDZ has changed its balance date from 30 March to 31 December to bring it into line with the other funds managed by NZX Funds Management).

## Key metrics for the 12 months ended 31 December

	31 December 2004	31 December 2003	31 December 2002	31 December 2001
NZSX MidCap Capital Index	2,431.94	2,086.01	1,893.84	2,003.34
Net assets per unit	\$2.431	\$2.086	\$1.893	\$2.003
Gross distribution in cents per unit*	15.76	10.16	17.01	15.92
Number of Unitholders	2,072	n/a	n/a	n/a
Units on issue	18,169,198	17,179,021	15,231,512	13,631,512
Total value of Unitholders' funds	\$44,186,596	\$35,990,048	\$29,092,187	\$27,399,339

\* Before management fees are deducted

NZSX 50 Portfolio Index Fund (FONZ) - Performance for the financial period ended 31 December 2004

## FUND PERFORMANCE

The unit price of the NZSX 50 Portfolio Fund (FONZ) has increased since listing on 10th December 2004. In the 20 days to 31 December 2004, FONZ made a gain of 1.76% net of dividends. Within this short period two underlying constituents companies paid out dividends; these were Contact Energy Ltd and Mainfreight Ltd.

As at 31 December 2004, FONZ had a market capitalisation of \$17.6 million and had 11.9 million units on issue.

## INDEX PERFORMANCE

Over 2004, the NZSX 50 Portfolio Gross Index increased by 27.16%, and since January 2001 up until 31 December 2004 it had an annualised gross return of 16.95% per annum.

One distinct feature of the Index is that the weighting of any one security is limited to 5% of the Index. This means that no single large company dominates the performance of the Index; rather the performance is spread across all fifty companies.

Performance of the NZSX 50 Portfolio Gross Index



Please note, past performance is no guarantee of future returns

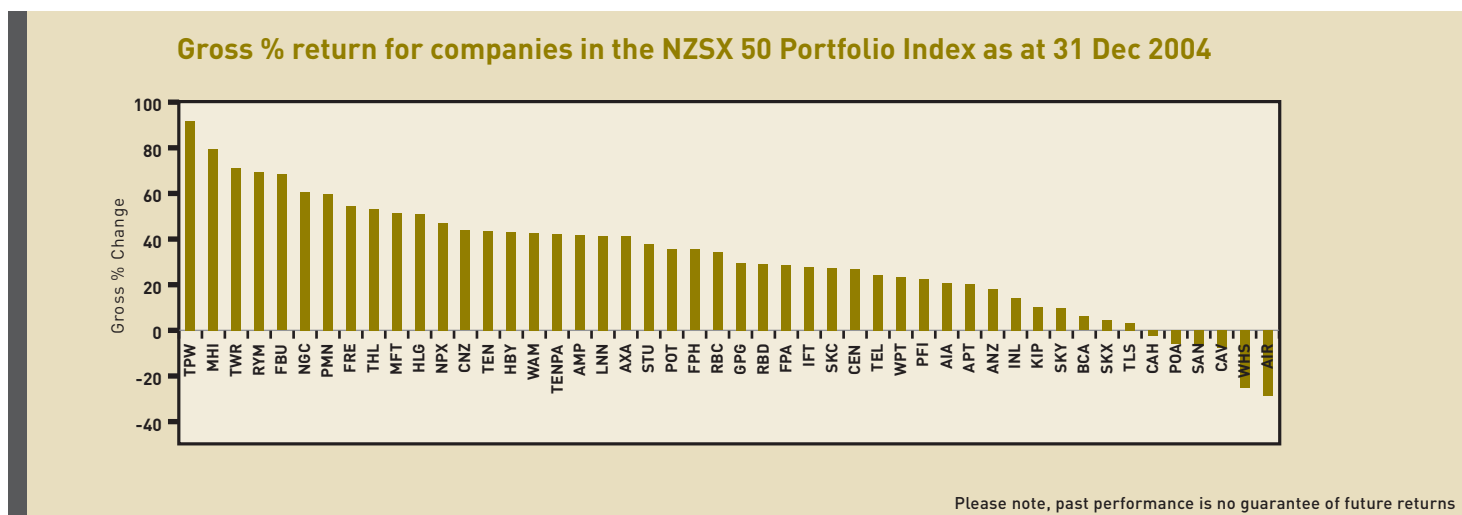
# FONZ SMARTSHARES

The composition of the Index in terms of its constituent companies remained stable up until June 2004. However in the second half of 2004 Feltex Carpets Ltd replaced Wrightson Ltd at the end of June; and at the end of September APN News & Media Limited, AXA Asia Pacific Holdings Ltd and Pumpkin Patch Ltd replaced BIL International Ltd, Calan Healthcare Properties Trust and URBUS Properties Ltd. In November 2004, Mainfreight Ltd replaced Powerco Ltd following the takeover of Powerco Ltd by Prime Infrastructure Networks (New Zealand) Ltd.

## COMPANY PERFORMANCE

The majority of constituent companies in the Index had positive returns over 2004 as shown in the graph below. Thirty five of these companies had returns greater than 20%.

There were notable performances from a number of the Index constituent companies. In particular, TrustPower Ltd's shares were up 91.61% following the company's continued expansion and positive half year results; Michael Hill International, Ltd shares were up 79.46% on the



Note: This graph represents the performance of the constituent companies who were in the NZSX 50 Portfolio Index as at 31 December 2004. Excluded from this graph are APN News & Media Ltd (APN), Feltex Carpets Ltd (FTX) and Pumpkin Patch Ltd (PPL) which listed part way through 2004.



back of increased profits and its further development in Australia and Canada; Tower Ltd's shares gained 71.20% as the company returned to profitability following the prior restructure and turnaround in TOWER Australia; and Ryman Healthcare Ltd's shares increased 69.37% after posting a record net surplus of \$18.4 million.

<b>Key metrics for the period ended 31 December 2004</b>	
	<b>31 December 2004</b>
NZSX 50 Portfolio Capital Index	1,473.87
Net asset value per unit	\$1.4738
Number of Unitholders	2,337
Units on issue	11,941,479
Total value of Unitholders' funds	\$17,600,022

# MOZY SMARTSHARES

NZX Australian MidCap Index Fund - Performance for the financial period ended 31 December 2004

## FUND PERFORMANCE

The NZX Australian MidCap Index Fund (MOZY) listed on 27 September 2004 and since that time returns have been impressive. Units in MOZY have increased 20.77% over the period to 31 December 2004. While this return is very strong, it should be noted that MOZY is a long term product and investors should therefore focus on the performance over time. The Index which MOZY tracks has returned 13.26% p.a over the past 10 years, which is a more relevant measure of performance.

As at 31 December 2004, MOZY had a market capitalisation of NZ\$38,075,216 and had 8.6 million units on issue.

## INDEX PERFORMANCE

Over the past decade the S&P/ASX MidCap 50 Accumulation Index (which MOZY tracks) has had produced strong returns. It increased 247.43% over the last 10 years which is an annualized return of 13.26% p.a. Over the last 3 years the Index increased 22.86% p.a.

Since MOZY listed there has been little change in the underlying constituent companies of the Index. DCA Group Ltd replaced Deutsche Office Trust in October 2004; and Multiplex Group was included in November 2004 following the takeover of Ronin Property Group.

**Historical S&P/ASX MidCap 50 Accumulation Index Performance**



Please note, past performance is no guarantee of future returns

## COMPANY PERFORMANCE

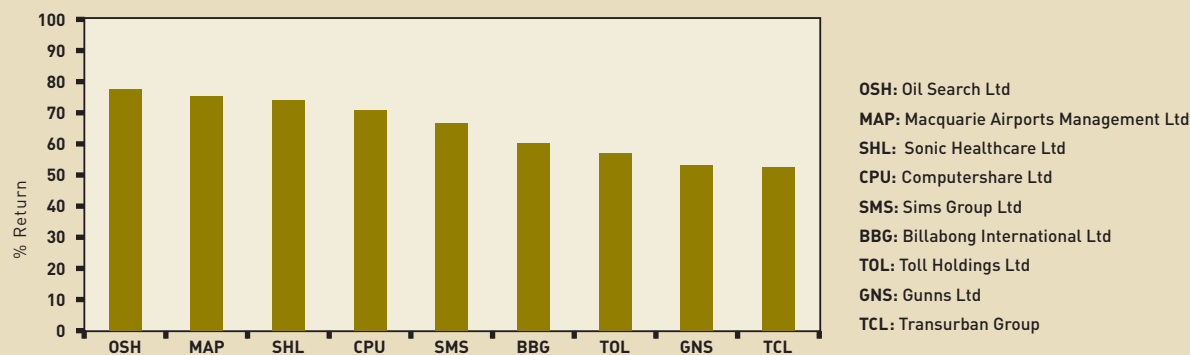
The Australian economy continued to be buoyant through 2004 and this was reflected in the performance of the Australian sharemarket as a whole. The Mid Cap companies listed on the ASX were no exception with many achieving impressive returns over the year. As illustrated in the graph below, the top 10 constituents companies in the S&P/ASX MidCap 50 Index all produced returns greater than 51%.

Aristocrat Leisure Ltd, the world's leading gaming solution providers had a record profit in 2004. Its revenue earnings

were up 12.5% to \$1.15 billion and its net profit after tax was A\$174.7 million. This result was driven in part from profits from its international operations which increased substantially in 2004. As a consequence the companies share price increased from A\$1.72 to A\$9.95 through the year.

Oil Search Ltd, in its 75th anniversary year, also had a record profit. Operating revenue was up 19% by the end of the year reflective of the increase in oil production, oil liftings and in realized oil prices. This more than offset the impact of the sale of the Company's interest in the Porgera Gold Mine in

### Major movers in the NZX Australian MidCap Index Fund as at 31 Dec 2004



NB: Graph excludes Aristocrat Leisure Ltd which returned 482% over 2004

Please note, past performance is no guarantee of future returns

late 2003. In addition oil and gas production which reached a record 11.05 million barrels of oil by the end 2004. These factors saw Oil Search Ltd share price increase by 77.45% over the year.

### Key metrics for the financial period ended 31 December 2004

	31 December 2004
S&P/ASX MidCap 50 Capital Index	4,076.8
Net assets per unit	NZ\$4.4421
Number of Unitholders	2,164
Units on issue	8,571,445
Total value of Unitholders' funds	NZ\$38,075,216



# 2004

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# NZSX 10 FUND FINANCIAL STATEMENTS

## STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	Dec 2004 \$000	Dec 2003 \$000
<b>REVENUE</b>			
Company dividends		3,668	2,999
Tax expense	2	(98)	(107)
<b>Surplus for the Period</b>		<b>3,570</b>	<b>2,892</b>

## STATEMENT OF MOVEMENTS IN UNITHOLDERS FUNDS

FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	Dec 2004 \$000	Dec 2003 \$000
Unitholders' Funds as at 31 December 2003		83,687	77,691
Surplus for the period		3,570	2,892
Net subscriptions received (redeemed)	7	(8,908)	(8,482)
Increase (Decrease) in value of investments		9,158	14,478
Distribution to Unitholders	3	(3,570)	(2,892)
<b>Unitholders' Funds as at 31 December 2004</b>		<b>83,937</b>	<b>83,687</b>

## STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2004

	Note	Dec 2004 \$000	Dec 2003 \$000
<b>ASSETS</b>			
Cash at call		1,798	1,273
Accounts receivable		56	56
Taxation refund		(6)	43
Investments at market value	6	83,937	83,687
<b>Total Assets</b>		<b>85,785</b>	<b>85,059</b>
<b>LIABILITIES AND UNITHOLDERS' FUNDS</b>			
Accounts payable		81	80
Distribution payable to Unitholders	3	1,767	1,292
Unitholders' Funds	4	83,937	83,687
<b>Total Liabilities and Unitholders Funds</b>		<b>85,785</b>	<b>85,059</b>

The Board of Directors of NZX Funds Management Limited authorised these financial statements for issue on 14 February 2005.

D G Trow, Chairman  
NZX Funds Management Limited

M R Weldon, Director  
NZX Funds Management Limited

## NZSX 10 FUND FINANCIAL STATEMENTS CONTINUED

### STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	Dec 2004 \$000	Dec 2003 \$000
<b>Cash Flows from Operating Activities</b>			
Cash was provided from:			
Company dividends		3,668	2,999
Cash was applied to:			
Tax paid directly by the Fund		(48)	(51)
<b>Net cash flows from operating activities</b>		<b>3,620</b>	<b>2,948</b>
<b>Cash Flows from Financing Activities</b>			
Cash was applied to:			
Distributions directly to Unitholders	3	(2,820)	(2,906)
Management charge paid by Unitholders	3	(275)	(267)
<b>Net cash flows from financing activities</b>		<b>(3,095)</b>	<b>(3,173)</b>
Net increase (decrease) in cash held		525	(225)
Opening cash balance		1,273	1,498
<b>Cash at 31 December 2003</b>		<b>1,798</b>	<b>1,273</b>
<b>Reconciliation of Surplus after tax with net cash flows from operating activities</b>			
Surplus for the period		3,570	2,892
Movement in taxation receivable/(payable)		50	16
Movement in accounts receivable		-	-
Movement in accounts payable		-	40
<b>Net cash flows from operating activities</b>		<b>3,620</b>	<b>2,948</b>

# NOTES TO FINANCIAL STATEMENTS FOR NZSX 10 FUND

## 1. Statement of accounting policies

The financial statements presented are the financial statements of the NZSX10 Fund (the Fund), a Group Investment Fund established under the Trustee Companies Act 1967 and a Trust Deed dated 7 May 1996. The Fund is an Issuer as defined in the Financial Reporting Act 1993 and these financial statements are presented in compliance with the Act.

The following accounting policies, recognised as appropriate for the measurement and reporting of financial performance, cashflows and financial position, have been followed in the preparation of these financial statements. The historical cost method, as modified by the revaluation of investments, has been used.

### REVENUE

Company dividends are recognised in the Statement of Financial Performance at the date declared by the company in which the shareholding is held.

### INVESTMENTS

As prescribed by the Trust Deed, the Fund only invests in the securities included in the NZSX 10 Index in proportion to the market capitalisation of the Index and the available capital of the Fund. Investments are valued at market value according to closing prices on the New Zealand Exchange on 31 December 2004 (see Note 6).

The Fund holds a portfolio of marketable securities for the long term as an investment vehicle for individual Unitholders and distributions are confined only to dividends received from the portfolio of investments. As a consequence, all changes in value of investments, both realised and unrealised are recorded in the Statement of Movements in Unitholders Funds.

### TAXATION

Taxation is calculated using the liability method on a comprehensive basis.

The Fund has a binding ruling from the Inland Revenue Department that states that any gains realised from the sale of shares, in order to match the composition and weighting of the Index or to fund a redemption of units, will not be taxable to the Fund. This ruling has been renewed to 30 June 2007.

The Fund is liable for tax at the prevailing company rate of 33% on dividends and interest from the companies listed in Note 6. With most of this income, the Fund is able to utilise imputation credits to satisfy the tax liability. The Fund pays tax to the extent that the imputation credits do not cover the tax liability in full. Hence all distributions to Unitholders are made on a fully imputed basis.

### SURPLUS FOR DISTRIBUTION TO UNITHOLDERS

Dividend and interest income from investments is attributed to Unitholders on the basis of the number of units held at the time the income is declared.

Distribution of this income is made on a fully imputed basis as at 28 February and 31 August each year. Pursuant to the Trust Deed, management charges are deducted from these distributions at the time that the payments to Unitholders are made.

### CONCENTRATION OF FUNDING

Funding is sourced solely from investor deposits. Investors are primarily corporate organisations and other financial institutions.

### CASH FLOWS

Cash is considered to be cash on hand and current accounts in banks, net of bank overdrafts. Operating activities include all transactions or events that are not investing or financing activities. Investing activities are those activities that relate to the acquisition, holding and disposal of investments and securities not falling within the definition of cash.

Financing activities are those activities that relate to cash contributions from or cash distributions to Unitholders.

### CHANGES IN ACCOUNTING POLICIES

There have been no material changes to accounting policies during the period.



## NOTES TO FINANCIAL STATEMENTS FOR NZSX 10 FUND CONTINUED

### CASH FLOWS

Cash is considered to be cash on hand and current accounts in banks, net of bank overdrafts. Operating activities include all transactions or events that are not investing or financing activities. Investing activities are those activities that relate to the acquisition, holding and disposal of investments and securities not falling within the definition of cash.

Financing activities are those activities that relate to cash contributions from or cash distributions to Unitholders.

### CHANGES IN ACCOUNTING POLICIES

There have been no material changes to accounting policies during the period.

### 2. Taxation

	Dec 2004 \$000	Dec 2003 \$000
<b>Income tax expense</b>		
Surplus before tax	3,668	2,999
Imputation credits	1,626	1,291
Taxable Income	5,294	4,290
Taxation at 33%	1,747	1,416
Less Imputation credits and FITC	(1,649)	(1,309)
Current taxation expense	98	107
<b>Imputation credits</b>		
Imputation credits received during the period	1,626	1,291
Tax paid during the period	48	91
Imputation credits brought forward	1,455	1,490
	3,129	2,872
Credits attached to distributions paid	(1,365)	(1,417)
Credits to be attached to next distribution	1,764	1,455

### 3. Distribution to Unitholders

	Total attributed to Unitholders Dec 2004 \$000	Payments to the Manager \$000	Payments to Unitholders \$000	Total attributed to Unitholders Dec 2003 \$000
To be paid at beginning of period	1,292	-	1,292	1,573
Surplus for the period	3,570	275	3,295	2,892
	4,862	275	4,587	4,465
Cash paid to Unitholders/Manager	(3,095)	(275)	(2,820)	(3,173)
To be paid	1,767	-	1,767	1,292

## NOTES TO FINANCIAL STATEMENTS FOR NZSX 10 FUND CONTINUED

### 4. Unitholders' Funds

Tax expense is based on accounting surpluses, adjusted for the permanent differences between accounting and tax rules.

As at 31 December 2004 there were 70,445,142 (December 2003: 78,771,153) units on issue. The net asset backing of each unit at 31 December 2004 was \$1.1915 (December 2003: \$1.0624).

### 5. Related Parties

The Fund is managed by NZX Funds Management Limited, a wholly owned subsidiary of New Zealand Exchange Limited. NZX Funds Management Limited receives a management fee directly from the Unitholders. Under the Trust Deed the Manager pays Trustee, Custodian, Registrar and Audit charges in respect of the Fund and receives all basket application and withdrawal fees and interest earned on cash at call. Adjustments to rebalance the Fund against the NZSX 10 Index have been borne by the Manager.

### 6. Investments as at 31 December 2004

Company	Number of Securities	Market value (\$)
Auckland International Airport Ltd Ordinary Shares	825,241	6,585,423
Carter Holt Harvey Ltd Ordinary Shares	3,540,252	7,328,322
Contact Energy Ltd Ordinary Shares	1,560,008	9,984,051
Fisher & Paykel Appliances Ltd Ordinary Shares	708,721	3,047,500
Fisher & Paykel Healthcare Ltd Ordinary Shares	1,374,795	4,454,336
Fletcher Building Ltd Ordinary Shares	1,181,810	7,823,582
Independent Newspapers Ltd Ordinary Shares	775,194	4,457,366
Sky City Entertainment Group Ltd Ordinary Shares	1,126,520	6,060,678
Telecom Corporation of New Zealand Ltd Ordinary Shares	5,241,076	32,232,617
The Warehouse Group Ltd Ordinary Shares	540,896	1,963,452
		<hr/>
		83,937,327

The market value of securities held at 31 December 2003 was \$83,687,000. The investments are registered in the name of The New Zealand Guardian Trust Company Limited, the custodian of the Fund.

### 7. Unitholder subscriptions and redemptions

Subscriptions subsequent to the initial public offering have been made in the form of baskets of constituent securities of the NZSX 10 Index (i.e. not for cash) and therefore have not been included in the Statement of Cash Flows. Redemptions are made in the form of baskets and also have not been included in the Statement of Cash Flows.

### 8. Financial Instruments

#### CREDIT RISK

Credit risk is the potential risk of financial loss resulting from the failure of counter parties to honour fully the terms and conditions of a contract with the Fund. Financial instruments that potentially subject the Fund to credit risk consist primarily of cash, accounts receivable and investments. The maximum credit risk of financial instruments is considered to be book value. The risk of non-recovery of monetary assets is considered minimal due to the quality of counter parties dealt with. Maximum exposures to credit risk at balance date are:

## NOTES TO FINANCIAL STATEMENTS FOR NZSX 10 FUND CONTINUED

	Dec 2004 \$000	Dec 2003 \$000
Cash	1,798	1,273
Accounts Receivable	56	56
Investments	83,937	83,687

### FAIR VALUE

The carrying amount of financial instruments is equal to their fair value.

### INTEREST RATE RISK

Interest rate risk is the risk of earnings loss arising from adverse movements in levels and volatilities of interest rates. The fund has exposure to interest rate risk on its balances. The interest rate risk arising from this is managed by the manager.

## UNITHOLDER INFORMATION

### DISTRIBUTION OF SECURITY HOLDERS AND SECURITY HOLDINGS AS AT 28 FEBRUARY 2005

	No. of holders	% of holders	No. of units	% of units
1 – 4,999	1,073	28.44%	2,965,270	4.26%
5,000 – 9,999	1,165	30.89%	8,232,383	11.85%
10,000 – 49,999	1,392	36.90%	26,630,216	38.35%
50,000 – 99,999	101	2.68%	6,601,401	9.51%
100,000 – 499,999	33	0.87%	5,620,369	8.09%
500,000 and over	8	0.22%	19,395,503	27.94%
Totals	3,772	100.00%	69,445,142	100.00%

### 20 LARGEST REGISTERED HOLDERS OF QUOTED EQUITY SECURITIES AS AT 28 FEBRUARY 2005

Full Name	Total units	Percentage
Sovereign Assurance Company Ltd	10,276,533	14.79%
Metropolitan Life Assurance Company of NZ Ltd	3,183,065	4.58%
Sovereign Superannuation Funds Ltd	3,050,436	4.39%
Lancashire Ltd	769,505	1.10%
Sovereign Superannuation Trustees Ltd	603,000	0.86%
Eeshala Nominees Ltd	505,988	0.72%
Minnow Investments Ltd	505,988	0.72%
Hendry Nominees Ltd	500,988	0.72%
Westpac Nominees NZ Ltd	489,895	0.70%
ANZ Nominees Ltd	382,663	0.55%
NZ Guardian Trust Company Ltd	329,276	0.47%
Ross Richard Stuhlmann & Graham John Stevens & Stewartco Trust Services Ltd	311,915	0.44%
Dennis George Row & Joan Doran Row & SW Trust Services Ltd	289,700	0.41%
Dennis George Row & Joan Doran Row & SW Trust Services Ltd	265,000	0.38%
Waikato Health Trust	217,577	0.31%
Thomas William Schnackenberg & Annette Helen Schnackenberg	204,584	0.29%

## NOTES TO FINANCIAL STATEMENTS FOR NZSX 10 FUND CONTINUED

Full Name	Total	Percentage
Jennifer Kay Higgins	190,596	0.27%
Maori Investments Ltd	185,698	0.26%
Diana Renker	170,012	0.24%
Mary Campbell Riches	163,121	0.23%
	<b>22,595,540</b>	<b>32.43%</b>

### SUBSTANTIAL SECURITY HOLDERS

As at 28 February 2005, the Fund has not received any notices from Substantial Security Holders pursuant to section 26 of the Securities Amendment Act 1988.

### DIRECTORS INTERESTS IN UNITS AS AT 31 DECEMBER 2004

	Beneficial	Non-Beneficial
Donald Trow	28,154	-
Mark Weldon	9,023	-
Geoffrey Brown	5,009	-
Martin Rea	1,502	-

### WAIVERS GRANTED

New Zealand Exchange Limited has granted, either fully, partially or subject to conditions, the following waivers from the Listing Rules that were applicable at 31 December 2004:

Listing Rules: 1.9.1, 3.1.1(a), 3.1.3, 3.3.1, 3.3.2 to 3.3.12, 3.4, 3.5, Section 4, 7.1.7, 7.3, 7.5, 7.61 to 7.6.3, 7.11.1, 8.2.1 to 8.2.3, 8.3.1, 9.1.1(b), 9.2.1, 10.4.2, 10.5.1(b), 10.5.2, 10.8.1(a), 11.2.3, 11.1.1, and Appendix 2.

## Auditors' Report

To the unitholders of NZSX 10 Fund

We have audited the financial statements on pages 20 and 21. The financial statements provide information about the past financial performance and cash flows of NZSX 10 Fund "the Fund" for the year ended 31 December 2004 and its financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 22 and 23.

### Manager's Responsibilities

The Fund's Manager is responsible for the preparation and presentation of financial statements which give a true and fair view of the financial position of the Fund as at 31 December 2004 and its financial performance and cash flows for the twelve months ended on that date.

### Auditors' Responsibilities

We are responsible for expressing an independent opinion on the financial statements presented by the Manager and reporting our opinion to you.

### Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- (a) the significant estimates and judgements made by the Manager in the preparation of the financial statements; and
- (b) whether the accounting policies are appropriate to the circumstances of the Fund, consistently applied and adequately disclosed.

We have conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have no relationship with or interests in the Fund other than in our capacities as auditors and tax advisors.

### Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

- (a) proper accounting records have been kept by the Fund as far as appears from our examination of those records; and
- (b) the financial statements on pages 20 and 21:
  - (i) comply with generally accepted accounting practice; and
  - (ii) are in accordance with the trust deed dated 7 May 1996; and
  - (iii) give a true and fair view of the financial position of the Fund as at 31 December 2004 and its financial performance and cash flows for the year ended on that date.

Our audit was completed on 14 February 2005 and our unqualified opinion is expressed as at that date.



Chartered Accountants, Wellington.



# NZSX MIDCAP INDEX FUND FINANCIAL STATEMENTS

## STATEMENT OF FINANCIAL PERFORMANCE

FOR THE PERIOD ENDED 31 DECEMBER 2004

	Note	9 months to Dec 2004 \$000	12 months to Mar 2004 \$000
<b>REVENUE</b>			
Company dividends		1,413	1,641
Tax expense	2	5	[142]
<b>Surplus for the Period</b>		<b>1,418</b>	<b>1,499</b>

## STATEMENT OF MOVEMENTS IN UNITHOLDERS FUNDS

FOR THE PERIOD ENDED 31 DECEMBER 2004

	Note	Dec 2004 \$000	Mar 2004 \$000
Unitholders' Funds at start of period		36,380	27,947
Surplus for the period		1,418	1,499
Net subscriptions received (redeemed)	7	1,893	2,565
Increase (Decrease) in value of investments		6,491	5,921
Distribution to Unitholders	3	[1,996]	[1,552]
<b>Unitholders' Funds at end of period</b>		<b>44,186</b>	<b>36,380</b>

## STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2004

	Note	Dec 2004 \$000	Mar 2004 \$000
<b>ASSETS</b>			
Cash at call		381	821
Accounts receivable		4	63
Taxation refund		5	-
Investments at market value	6	44,186	36,380
<b>Total Assets</b>		<b>44,576</b>	<b>37,264</b>
<b>LIABILITIES AND UNITHOLDERS' FUNDS</b>			
Taxation payable		(5)	12
Distribution payable to Unitholders	3	390	872
Unitholders' Funds	4	44,186	36,380
<b>Total Liabilities and Unitholders Funds</b>		<b>44,576</b>	<b>37,264</b>

The Board of Directors of NZX Funds Management Limited and the Board of Directors of Trustees Executors Limited authorised these financial statements for issue on 23 March 2005.

D G Trow, Chairman  
NZX Funds Management Limited

M R Weldon, Director  
NZX Funds Management Limited

G A Clark, Director  
Trustees Executors Limited

J C Hagen  
Trustees Executors Limited

## NZSX MIDCAP INDEX FUND FINANCIAL STATEMENTS CONTINUED

### STATEMENT OF CASH FLOWS

FOR THE PERIOD ENDED 31 DECEMBER 2004

	Note	9 months to Dec 2004 \$000	12 months to Mar 2004 \$000
<b>Cash Flows from Operating Activities</b>			
Cash was provided from:			
Company dividends		1,533	1,571
Reinvestment Funds		57	22
Tax refund received		-	11
		<u>1,590</u>	<u>1,604</u>
Cash was applied to:			
Payments to creditors		(46)	
Tax paid directly by the Fund		(85)	(169)
		<u>(131)</u>	<u>(169)</u>
<b>Net cash flows from operating activities</b>		<b>1,459</b>	<b>1,435</b>
Cash Flows from Investing Activities			
Cash was provided from:			
Capital Receipts from Constituent Companies		95	2,133
		<u>95</u>	<u>2,133</u>
Cash was applied to:			
Dividend Reinvestment Plan		(275)	(2,192)
		<u>(275)</u>	<u>(2,192)</u>
<b>Net cash flows from investing activities</b>		<b>(180)</b>	<b>(59)</b>
Cash Flows from Financing Activities			
Cash was applied to:			
Distributions directly to unitholders	3	(1,299)	(723)
Management charge paid by unitholders	3	(421)	(227)
		<u>(1,720)</u>	<u>(950)</u>
<b>Net cash flows from financing activities</b>		<b>(1,720)</b>	<b>(950)</b>
Net increase (decrease) in cash held		(441)	426
Opening cash balance at start of period		821	395
<b>Cash at close of period</b>		<b>380</b>	<b>821</b>
<b>Reconciliation of Surplus after tax with net cash flows from operating activities</b>			
<b>Surplus for the period</b>		<b>1,418</b>	<b>1,499</b>
Movement in taxation receivable/(payable)		(18)	(16)
Movement in accounts receivable		59	(48)
<b>Net cash flows from operating activities</b>		<b>1,459</b>	<b>1,435</b>



# NOTES TO FINANCIAL STATEMENTS FOR THE NZSX MIDCAP INDEX FUND

## 1. Statement of accounting policies

The financial statements presented are the financial statements of the NZSX MidCap Index Fund (the Fund), a Group Investment Fund established under the Trustee Companies Act 1967 and a Trust Deed dated 15 April 1997. The Fund is an Issuer as defined in the Financial Reporting Act 1993 and these financial statements are presented in compliance with the Act.

The following accounting policies, recognised as appropriate for the measurement and reporting of financial performance, cashflows and financial position, have been followed in the preparation of these financial statements. The historical cost method, as modified by the revaluation of investments, has been used.

### REVENUE

Company dividends are recognised in the Statement of Financial Performance at the date declared by the company in which the shareholding is held.

### INVESTMENTS

As prescribed by the Trust Deed, the Fund only invests in the securities included in the NZSX MidCap Index in proportion to the market capitalisation of the Index and the available capital of the Fund. Investments are valued at market value according to closing prices on the New Zealand Exchange on 31 December 2004 [see Note 6].

The Fund holds a portfolio of marketable securities for the long term as an investment vehicle for individual Unitholders and distributions are confined only to dividends received from the portfolio of investments. As a consequence, all changes in value of investments, both realised and unrealised are recorded in the Statement of Movements in Unitholders Funds.

### TAXATION

Taxation is calculated using the liability method on a comprehensive basis.

The Fund has a binding ruling from the Inland Revenue Department that states that any gains realised from the sale of shares, in order to match the composition and weighting of the Index or to fund a redemption of units, will not be taxable to the Fund. This ruling has been renewed to 10 August 2007.

The Fund is liable for tax at the prevailing company rate of 33% on dividends and interest from the companies listed in Note 6. With most of this income, the Fund is able to utilise imputation credits to satisfy the tax liability. The Fund pays tax to the extent that the imputation credits do not cover the tax liability in full. Hence all distributions to Unitholders are made on a fully imputed basis.

### SURPLUS FOR DISTRIBUTION TO UNITHOLDERS

Dividend and interest income from investments is attributed to Unitholders on the basis of the number of units held at the time the income is declared.

Distribution of this income is made on a fully imputed basis as at 31 May and 30 November each year. Pursuant to the Trust Deed, management charges are deducted from these distributions at the time that the payments to Unitholders are made.

### CONCENTRATION OF FUNDING

Funding is sourced solely from investor deposits. Investors are primarily corporate organisations and other financial institutions.

### CASH FLOWS

Cash is considered to be cash on hand and current accounts in banks, net of bank overdrafts. Operating activities include all transactions or events that are not investing or financing activities. Investing activities are those activities that relate to the acquisition, holding and disposal of investments and securities not falling within the definition of cash.

Financing activities are those activities that relate to cash contributions from or cash distributions to Unitholders.

### CHANGES IN ACCOUNTING POLICIES

There have been no material changes to accounting policies during the period.



## NOTES TO FINANCIAL STATEMENTS FOR THE NZSX MIDCAP INDEX FUND CONTINUED

### 2. Taxation

	9 months to Dec 2004 \$000	12 months to Mar 2004 \$000
<b>Income tax expense</b>		
Surplus before tax	1,413	1,641
Imputation credits	532	581
Taxable Income	1,945	2,222
Taxation at 33%	642	733
Less Imputation credits and FITC	(647)	(591)
Current taxation expense/(credit)	(5)	142
<b>Imputation credits</b>		
Imputation credits received during the period	532	580
Tax paid during the period	-	169
Imputation credits brought forward	318	82
	850	831
Credits attached to distributions paid	(887)	(513)
Credits to be attached to next distribution	(37)	318

### 3. Distribution to Unitholders

	Total attributed to Unitholders Dec 2004 \$000	Payments to the Manager \$000	Payments to Unitholders \$000	Total attributed to Unitholders Mar 2004 \$000
To be paid at beginning of period	872	88	784	381
Surplus for the period	1,418	333	1,085	1,499
Capital receipt from constituent companies	-	-	95	2,133
	2,385	421	1,964	4,013
Cash paid to Unitholders	(1,721)	(421)	(1,300)	(949)
Dividends reinvested	(274)	-	(274)	(112)
Bonus issue	-	-	-	(2,080)
To be paid	390	-	390	872

### 4. Unitholders' Funds

As at 31 December 2004 there were 18,169,198 (March 2004: 17,711,056) units on issue. The net asset backing of each unit at 31 December 2004 was \$2.431 (March 2004: \$2.054).

### 5. Related Parties

The Fund is managed by NZX Funds Management Limited, a wholly owned subsidiary of New Zealand Exchange Limited. NZX Funds Management Limited receives a management fee directly from the Unitholders. Under the Trust Deed the Manager pays Trustee, Custodian, Registrar and Audit charges in respect of the Fund and receives all basket application and withdrawal fees and interest earned on cash at call. Adjustments to rebalance the Fund against the NZSX MidCap Index have been borne by the Manager.

## NOTES TO FINANCIAL STATEMENTS FOR THE NZSX MIDCAP INDEX FUND CONTINUED

### 6. Investments as at 31 December 2004

Company	Number of Securities	Market value (\$)
Air New Zealand Ltd (NS) Ordinary Shares	840,137	1,377,825
AMP NZ Office Trust Ordinary Units	936,432	842,789
Capital Properties New Zealand Ltd Ordinary Shares	826,132	966,574
Cavalier Corporation Ltd Ordinary Shares	205,123	962,027
Feltex Carpets Ltd Ordinary Shares	644,415	1,056,841
Freightways Ltd Ordinary Shares	500,838	1,562,615
Hallenstein Glasson Holdings Ltd Ordinary Shares	166,386	623,948
Hellaby Holdings Ltd Ordinary Shares	137,589	887,449
Infratil Ltd Ordinary Shares	970,600	3,251,510
Kiwi Income Property Trust Ordinary Units	3,031,806	3,365,305
Mainfreight Ltd Ordinary Shares	247,908	557,793
Michael Hill International Ltd Ordinary Shares	115,499	947,092
NGC Holdings Ltd Ordinary Shares	648,317	2,009,783
Nuplex Industries Ltd Ordinary Shares	317,547	1,857,650
Port of Tauranga Ltd (NS) Ordinary Shares	259,990	1,448,144
Ports of Auckland Ltd (NS) Ordinary Shares	67,271	460,806
Property For Industry Ltd Ordinary Shares	868,289	903,021
Pumpkin Patch Ltd Ordinary Shares	438,810	1,211,116
Restaurant Brands NZ Ltd Ordinary	262,529	338,662
Rubicon Ltd Ordinary Shares	584,330	619,390
Ryman Healthcare Ltd Ordinary Shares	365,886	1,335,484
Sanford Ltd Ordinary Shares	253,986	1,142,937
Skellmax Industries Ltd Ordinary Shares	262,292	330,488
Sky Network Television Ltd Ordinary	366,079	2,251,386
Steel & Tube Holdings Ltd Ordinary Shares	187,663	889,523
Tenon Ltd Ordinary Shares	121,121	266,466
Tenon Ltd Preference Shares	316,814	690,655
Tourism Holdings Ltd Ordinary Shares	394,963	829,422
Tower Ltd Ordinary Shares	1,558,453	3,335,089
TrustPower Ltd Ordinary Shares	159,603	909,735
Waste Management NZ Ltd Ordinary Shares	428,294	2,419,861
Westpac (NZ) Investments Ltd Ordinary Shares	227,900	4,535,210
		<b>44,186,596</b>

The market value of securities held at 31 March 2004 was \$36,380,351. The investments are registered in the name of Custodial Services Limited, the custodian of the Fund.

### 7. Unitholder subscriptions and redemptions

Subscriptions subsequent to the initial public offering have been made in the form of baskets of constituent securities of the NZSX MidCap Index (i.e. not for cash) and therefore have not been included in the Statement of Cash Flows. Redemptions are made in the form of baskets and also have not been included in the Statement of Cash Flows.

## NOTES TO FINANCIAL STATEMENTS FOR THE NZSX MIDCAP INDEX FUND CONTINUED

### 8. Financial Instruments

#### CREDIT RISK

Credit risk is the potential risk of financial loss resulting from the failure of counter parties to honour fully the terms and conditions of a contract with the Fund. Financial instruments that potentially subject the Fund to credit risk consist primarily of cash, accounts receivable and investments. The maximum credit risk of financial instruments is considered to be book value. The risk of non-recovery of monetary assets is considered minimal due to the quality of counter parties dealt with. Maximum exposures to credit risk at balance date are:

	Dec 2004 \$000	Mar 2004 \$000
Cash	381	821
Accounts Receivable	-	63
Investments	44,186	36,380

#### FAIR VALUE

The carrying amount of financial instruments is equal to their fair value.

#### INTEREST RATE RISK

Interest rate risk is the risk of earnings loss arising from adverse movements in levels and volatilities of interest rates. The fund has exposure to interest rate risk on its balances. The interest rate risk arising from this is managed by the manager.

## UNITHOLDER INFORMATION

#### DISTRIBUTION OF SECURITY HOLDERS AND SECURITY HOLDINGS AS AT 28 FEBRUARY 2005

	No. of holders	% of holders	No. of units	% of units
1 – 4,999	1,060	50.91%	2,880,036	15.85%
5,000 – 9,999	557	26.75%	3,793,362	20.88%
10,000 – 49,999	443	21.28%	7,840,843	43.15%
50,000 – 99,999	13	0.62%	841,199	4.63%
100,000 – 499,999	8	0.38%	1,913,486	10.53%
500,000 and over	1	0.06%	900,272	4.96%
<b>Totals</b>	<b>2,082</b>	<b>100.00%</b>	<b>18,169,198</b>	<b>100.00%</b>

#### 20 LARGEST REGISTERED HOLDERS OF QUOTED EQUITY SECURITIES AS AT 28 FEBRUARY 2005

Full Name	Total units	Percentage
Investment Custodial Services Ltd	900,272	4.95%
Westpac Nominees NZ Ltd	370,963	2.04%
Custodial Services Ltd	331,672	1.82%
Custodial Services Ltd	274,437	1.51%
Custodial Services Ltd	235,874	1.29%
New Zealand Law Foundation	212,467	1.16%
First NZ Capital Custodians Ltd	194,338	1.06%
NZ Guardian Trust Company Ltd	174,966	0.96%
Dennis George Row & Joan Doran Row & SW Trust Services Ltd	118,769	0.65%

## NOTES TO FINANCIAL STATEMENTS FOR THE NZSX MIDCAP INDEX FUND CONTINUED

Full Name	Total units	Percentage
NZ Guardian Trust Company Ltd	93,320	0.51%
Ross Peter Twiname	90,422	0.49%
ANZ Nominees Ltd	87,727	0.48%
Maori Investments Ltd	65,015	0.35%
Martin Johnson	62,678	0.34%
NZ Guardian Trust Company Ltd	57,260	0.31%
Gavin Douglas Horne	55,925	0.30%
Howard Dudley Niels Nielsen	55,925	0.30%
Kerry Wayne Petersen & Beverly Petersen	55,925	0.30%
Kathryn May Kelly & David Anderson Smith	55,692	0.30%
David Anderson Smith & Graeme Albert Smaill	55,692	0.30%
	<b>3,549,339</b>	<b>19.42%</b>

### SUBSTANTIAL SECURITY HOLDERS

As at 28 February 2005, the Fund has not received any notices from Substantial Security Holders pursuant to section 26 of the Securities Amendment Act 1988.

### DIRECTORS INTERESTS IN UNITS AS AT 31 DECEMBER 2004

	Beneficial	Non-Beneficial
Donald Trow	5,000	-
Mark Weldon	-	-
Geoffrey Brown	-	-
Martin Rea	-	-

### WAIVERS GRANTED

New Zealand Exchange Limited has granted, either fully, partially or subject to conditions, the following waivers from the Listing Rules that were applicable at 31 December 2004:

Listing Rules: 1.9.1, 3.1.1(a), 3.1.1(b), 3.1.3, 3.3.1, 3.3.2 to 3.3.12, 3.4, 3.5, Section 4, 7.3, 7.5, 7.61 to 7.6.3, 7.11.1, 8.2.1 to 8.2.3, 8.3.1, 9.1.1(b), 9.2.1, 10.4.2, 10.5.1(b), 10.5.2, 10.8.1(a), 11.2.3, 11.1.1, and Appendix 2.

## Auditor's Report

To the unitholders of NZSX MidCap Index Fund

We have audited the financial statements on pages 28 and 29. The financial statements provide information about the past financial performance and cash flows of NZSX MidCap Index Fund "the Fund" for the period ended 31 December 2004 and its financial position as at that date. This information is stated in accordance with the accounting policies set out on page 30.

### Manager's Responsibilities

The Fund's Manager and Trustee is responsible for the preparation and presentation of financial statements which give a true and fair view of the financial position of the Fund as at 31 December 2004 and its financial performance and cash flows for the twelve months ended on that date.

### Auditors' Responsibilities

We are responsible for expressing an independent opinion on the financial statements presented by the Manager and Trustee and reporting our opinion to you.

### Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- (a) the significant estimates and judgements made by the Manager in the preparation of the financial statements; and
- (b) whether the accounting policies are appropriate to the circumstances of the Fund, consistently applied and adequately disclosed.

We have conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have no relationship with or interests in the Fund other than in our capacities as auditors and tax advisors.

### Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

- (a) proper accounting records have been kept by the Fund as far as appears from our examination of those records; and
- (b) the financial statements on pages 28 and 29:
  - (i) comply with generally accepted accounting practice; and
  - (ii) are in accordance with the trust deed dated 15 April 1997; and
  - (iii) give a true and fair view of the financial position of the Fund as at 31 December 2004 and its financial performance and cash flows for the year ended on that date.

Our audit was completed on 23 March 2005 and our unqualified opinion is expressed as at that date.



Chartered Accountants, Wellington.



# NZSX 50 PORTFOLIO INDEX FUND FINANCIAL STATEMENTS

## STATEMENT OF FINANCIAL PERFORMANCE FOR THE PERIOD ENDED 31 DECEMBER 2004

	Note	20 days to 31 Dec 2004 \$000
<b>REVENUE</b>		
Company dividends		8
Tax expense		-
<b>Surplus for the Period</b>		<b>8</b>

## STATEMENT OF MOVEMENTS IN UNITHOLDERS FUNDS FOR THE PERIOD ENDED 31 DECEMBER 2004

	Note	Dec 2004 \$000
Unitholders' Funds as at IPO		10,160
Surplus for the period		8
Net subscriptions received (redeemed)	6	-
Increase (Decrease) in value of investments		304
Securities transferred from Forsyth Barr		7,135
Increase (Decrease) on value of securities transferred		(7)
Distribution to Unitholders	2	-
<b>Unitholders' Funds as at 31 December 2004</b>		<b>17,600</b>

## STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2004

	Note	Dec 2004 \$000
<b>ASSETS</b>		
Cash at call		98
Accounts receivable		-
Taxation refund		-
Investments at market value	5	17,600
<b>Total Assets</b>		<b>17,698</b>
<b>LIABILITIES AND UNITHOLDERS' FUNDS</b>		
Accounts payable		90
Distribution payable to Unitholders	2	8
Unitholders' Funds	3	17,600
<b>Total Liabilities and Unitholders Funds</b>		<b>17,698</b>

The Board of Directors of NZX Funds Management Limited authorised these financial statements for issue on 14 February 2005.

D G Trow, Chairman  
NZX Funds Management Limited

M R Weldon, Director  
NZX Funds Management Limited

## NZSX 50 PORTFOLIO INDEX FUND FINANCIAL STATEMENTS CONTINUED

### STATEMENT OF CASH FLOWS

FOR THE PERIOD ENDED 31 DECEMBER 2004

	Note	Dec 2004
<b>Cash Flows from Operating Activities</b>		
Cash was provided from:		
IPO Application Fees		90
Company dividends		8
Cash was applied to:		
Tax paid directly by the Fund		
<b>Net cash flows from operating activities</b>		<b>98</b>
<b>Cash Flows from Financing Activities</b>		
Cash was provided from:		
Cash from IPO		10,125
Cash from Forsyth Barr T40 Fund transfer		131
Cash was applied to:		
Cash applied to investments	2	10,160
Cash applied to formation of the fund	2	6
<b>Net cash flows from financing activities</b>		<b>-</b>
Net increase (decrease) in cash held		98
Opening cash balance		-
<b>Cash at 31 December 2003</b>		<b>98</b>
<b>Reconciliation of Surplus after tax with net cash flows from operating activities</b>		
Surplus for the period		8
Movement in taxation receivable/(payable)		-
Movement in accounts receivable		-
Movement in accounts payable		90
<b>Net cash flows from operating activities</b>		<b>98</b>



# NOTES TO FINANCIAL STATEMENTS FOR THE NZSX 50 PORTFOLIO INDEX FUND

## 1. Statement of accounting policies

The financial statements presented are the financial statements of the NZSX 50 Portfolio Index Fund (the Fund), a Group Investment Fund established under the Trustee Companies Act 1967 and a Trust Deed dated 15 October 2004. The Fund is an Issuer as defined in the Financial Reporting Act 1993 and these financial statements are presented in compliance with the Act.

The following accounting policies, recognised as appropriate for the measurement and reporting of financial performance, cashflows and financial position, have been followed in the preparation of these financial statements. The historical cost method, as modified by the revaluation of investments, has been used.

### REVENUE

Company dividends are recognised in the Statement of Financial Performance at the date declared by the company in which the shareholding is held.

### INVESTMENTS

As prescribed by the Trust Deed, the Fund only invests in the securities included in the NZSX 50 Portfolio Index in proportion to the market capitalisation of the Index and the available capital of the Fund. Investments are valued at market value according to closing prices on the New Zealand Exchange on 31 December 2004 (see Note 6).

The Fund holds a portfolio of marketable securities for the long term as an investment vehicle for individual Unitholders and distributions are confined only to dividends received from the portfolio of investments. As a consequence, all changes in value of investments, both realised and unrealised are recorded in the Statement of Movements in Unitholders Funds.

### TAXATION

Taxation is calculated using the liability method on a comprehensive basis.

The Fund has a binding ruling from the Inland Revenue Department that states that any gains realised from the sale of shares, in order to match the composition and weighting of the Index or to fund a redemption of units, will not be taxable to the Fund. This ruling applies to 30 June 2007.

The Fund is liable for tax at the prevailing company rate of 33% on dividends and interest from the companies listed in Note 6. With most of this income, the Fund is able to utilise imputation credits to satisfy the tax liability. The Fund pays tax to the extent that the imputation credits do not cover the tax liability in full. Hence all distributions to Unitholders are made on a fully imputed basis.

### SURPLUS FOR DISTRIBUTION TO UNITHOLDERS

Dividend and interest income from investments is attributed to Unitholders on the basis of the number of units held at the time the income is declared.

Distribution of this income is made on a fully imputed basis as at 28 February and 31 August each year. Pursuant to the Trust Deed, management charges are deducted from these distributions at the time that the payments to Unitholders are made.

### CONCENTRATION OF FUNDING

Funding is sourced solely from investor deposits. Investors are primarily corporate organisations and other financial institutions.

### CASH FLOWS

Cash is considered to be cash on hand and current accounts in banks, net of bank overdrafts. Operating activities include all transactions or events that are not investing or financing activities. Investing activities are those activities that relate to the acquisition, holding and disposal of investments and securities not falling within the definition of cash.

Financing activities are those activities that relate to cash contributions from or cash distributions to Unitholders.

### CHANGES IN ACCOUNTING POLICIES

There have been no material changes to accounting policies during the period.



## NOTES TO FINANCIAL STATEMENTS FOR THE NZSX 50 PORTFOLIO INDEX FUND CONTINUED

### 2. Distribution to Unitholders

	Total attributed to Unitholders Dec 2004 \$000	Payments to the Manager \$000	Directly to Unitholders \$000
Surplus for the period	8		8
	8		8
Cash paid to unitholders/Manager	-		-
<b>To be paid</b>	<b>8</b>		<b>8</b>

### 3. Unitholders' Funds

As at 31 December 2004 there were 11,941,479 units on issue. The net asset backing of each unit at 31 December 2004 was \$1.4738.

### 4. Related Parties

The Fund is managed by NZX Funds Management Limited, a wholly owned subsidiary of New Zealand Exchange Limited. NZX Funds Management Limited receives a management fee directly from the Unitholders. Under the Trust Deed the Manager pays Trustee, Custodian, Registrar and Audit charges in respect of the Fund and receives all basket application and withdrawal fees and interest earned on cash at call. Adjustments to rebalance the Fund against the NZSX 50 Portfolio Index have been borne by the Manager.

### 5. Investments as at 31 December 2004

Company	Number of Securities	Market value (\$)
Air New Zealand Ltd (NS) Ordinary Shares	125,487	205,799
AMP Ltd Ordinary Shares	28,950	227,258
AMP NZ Office Trust Ordinary Units	139,870	125,883
APN News & Media Ltd Ordinary Shares	99,073	552,827
Auckland International Airport Ltd Ordinary Shares	96,383	769,136
Australia and New Zealand Banking Group Ltd Ordinary Shares	14,065	312,946
AXA Asia Pacific Holdings Ltd Ordinary Shares	32,215	141,746
Baycorp Advantage Ltd Ordinary Shares	21,660	72,344
Capital Properties New Zealand Ltd Ordinary Shares	123,395	144,372
Carter Holt Harvey Ltd Ordinary Shares	229,253	474,554
Cavalier Corporation Ltd Ordinary Shares	30,639	143,697
Contact Energy Ltd Ordinary Shares	134,741	862,342
Feltex Carpets Ltd Ordinary Shares	96,253	157,855
Fisher & Paykel Appliances Holdings Ltd Ordinary Shares	168,761	725,672
Fisher & Paykel Healthcare Corporation Ltd Ordinary Shares	283,028	917,011
Fletcher Building Ltd Ordinary Shares	159,678	1,057,068
Freightways Ltd Ordinary Shares	74,807	233,398
Guinness Peat Group Plc Ordinary Shares	426,480	925,462
Hallenstein Glasson Holdings Ltd Ordinary Shares	24,852	93,195
Hellaby Holdings Ltd Ordinary Shares	20,551	132,554
Independent Newspapers Ltd Ordinary Shares	184,591	1,061,398
Infratil Ltd Ordinary Shares	144,973	485,660

## NOTES TO FINANCIAL STATEMENTS FOR THE NZSX 50 PORTFOLIO INDEX FUND CONTINUED

Company	Number of Securities	Market value (\$)
Kiwi Income Property Trust Ordinary Units	452,844	502,657
Lion Nathan Ltd Ordinary Shares	21,417	198,536
Mainfreight Ltd Ordinary Shares	37,029	83,315
Michael Hill International Ltd Ordinary Shares	17,251	141,458
NGC Holdings Ltd Ordinary Shares	96,835	300,189
Nuplex Industries Ltd Ordinary Shares	47,430	277,466
Port of Tauranga Ltd (NS) Ordinary Shares	38,833	216,300
Ports of Auckland Ltd (NS) Ordinary Shares	10,048	68,829
Promina Group Ltd Ordinary Shares	113,554	658,613
Property For Industry Ltd Ordinary Shares	129,692	134,880
Pumpkin Patch Ltd Ordinary Shares	65,543	180,899
Restaurant Brands NZ Ltd Ordinary Shares	39,213	50,585
Rubicon Ltd Ordinary Shares	87,279	92,516
Ryman Healthcare Ltd Ordinary Shares	54,650	199,473
Sanford Ltd Ordinary Shares	37,936	170,712
Skellmax Industries Ltd Ordinary Shares	39,177	49,363
Sky City Entertainment Group Ltd (NS) Ordinary Shares	132,243	711,467
Sky Network Television Ltd Ordinary	54,679	336,276
Steel & Tube Holdings Ltd Ordinary Shares	28,030	132,862
Telecom Corporation of New Zealand Ltd (NS) Ordinary Shares	118,085	726,223
Telstra Corporation Ltd Ordinary Shares	25,887	137,978
Tenon Ltd Ordinary Shares	18,091	39,800
Tenon Ltd Preference Shares	47,321	103,160
The Warehouse Group Ltd Ordinary Shares	128,799	467,540
Tourism Holdings Ltd Ordinary Shares	58,994	123,887
Tower Ltd Ordinary Shares	232,777	498,142
TrustPower Ltd Ordinary Shares	23,839	135,881
Waste Management NZ Ltd Ordinary Shares	63,972	361,442
Westpac (NZ) Investments Ltd Ordinary Shares	34,040	677,396
		<b>17,600,022</b>

The investments are registered in the name of The New Zealand Guardian Trust Company Limited, the custodian of the Fund.

### 6. Unitholder subscriptions and redemptions

Subscriptions subsequent to the initial public offering have been made in the form of baskets of constituent securities of the NZSX 50 Portfolio Index (i.e. not for cash) and therefore have not been included in the Statement of Cash Flows. Redemptions are made in the form of baskets and also have not been included in the Statement of Cash Flows.

### 7. Financial Instruments

#### CREDIT RISK

Credit risk is the potential risk of financial loss resulting from the failure of counter parties to honour fully the terms and conditions of a contract with the Fund.

## NOTES TO FINANCIAL STATEMENTS FOR THE NZSX 50 PORTFOLIO INDEX FUND CONTINUED

Financial instruments that potentially subject the Fund to credit risk consist primarily of cash, accounts receivable and investments. The maximum credit risk of financial instruments is considered to be book value. The risk of non-recovery of monetary assets is considered minimal due to the quality of counter parties dealt with. Maximum exposures to credit risk at balance date are:

	Dec 2004 \$000
Cash	98
Investments	17,600

### FAIR VALUE

The carrying amount of financial instruments is equal to their fair value.

### INTEREST RATE RISK

Interest rate risk is the risk of earnings loss arising from adverse movements in levels and volatilities of interest rates. The fund has exposure to interest rate risk on its balances. The interest rate risk arising from this is managed by the manager.

## UNITHOLDER INFORMATION

### DISTRIBUTION OF SECURITY HOLDERS AND SECURITY HOLDINGS AS AT 28 FEBRUARY 2005

	No. of holders	% of holders	No. of units	% of units
1 – 4,999	1,774	73.34%	3,511,765	28.20%
5,000 – 9,999	356	14.72%	2,572,867	20.66%
10,000 – 49,999	270	11.16%	4,832,577	38.80%
50,000 – 99,999	16	0.66%	1,056,543	8.48%
100,000 – 499,999	3	0.12%	481,568	3.86%
500,000 and over	0	0.00%	0	0.00%
Totals	2,419	100.00%	12,455,320	100.00%

### 20 LARGEST REGISTERED HOLDERS OF QUOTED EQUITY SECURITIES AS AT 28 FEBRUARY 2005

Full Name	Total units	Percentage
First NZ Capital Custodians Ltd	237,162	1.92%
National Nominees Ltd	142,386	1.15%
The Public Trustee	100,939	0.82%
Peter Eric Tyndel	81,348	0.66%
Frances Wilby Skeet	76,716	0.62%
Mark Rhys Weldon	74,675	0.60%
Bryan William Leyland & Elizabeth Jane Leyland	73,698	0.59%
First NZ Capital Custodians Ltd	70,000	0.56%
Tahi Ventures Ltd	69,720	0.56%
Trevor Paul John Fitzjohn & John Livingston Marshall	69,382	0.56%
Warwick Alan Eves	69,044	0.56%
Barbara Anne Kendall & Shayne Gregory Bright	69,044	0.56%
Yvonne Margaret Penman & Graeme Frank Rhodes	69,044	0.56%
Neda Skokandich	59,676	0.48%
Maureen Warburton	58,200	0.47%

## NOTES TO FINANCIAL STATEMENTS FOR THE NZSX 50 PORTFOLIO INDEX FUND CONTINUED

Full Name	Total units	Percentage
John David Rowell & Georgia Tina Rowell	54,765	0.44%
Romie Greville	52,240	0.42%
Richard Frank Fernyhough & Paul Raymond Shelley Hocking & Diane Leonie Miller	51,783	0.42%
Custodial Services Limited	50,332	0.40%
Anne Hilary Harvey Ward	49,427	0.40%
	1,579,581	12.75%

### SUBSTANTIAL SECURITY HOLDERS

As at 28 February 2005, the Fund has not received any notices from Substantial Security Holders pursuant to section 26 of the Securities Amendment Act 1988.

### DIRECTORS INTERESTS IN UNITS AS AT 31 DECEMBER 2004

	Beneficial	Non-Beneficial
Donald Trow	13,809	-
Mark Weldon	69,044	-
Geoffrey Brown	-	34,522
Martin Rea	1,381	-

### WAIVERS GRANTED

New Zealand Exchange Limited has granted, either fully, partially or subject to conditions, the following waivers from the Listing Rules that were applicable at 31 December 2004:

Listing Rules: 1.9.1, 3.1.1(a), 3.1.3, 3.3.1, 3.3.2 to 3.3.12,3.4, 3.5, Section 4, 7.1.7, 7.3, 7.5, 7.61 to 7.6.3, 7.11.1, 8.2.1 to 8.2.3, 8.3.1, 9.1.1(b), 9.2.1, 10.4.2, 10.5.1(b),10.5.2, 10.8.1(a), 11.2.3, 11.1.1, and Appendix 2.

## Auditor's Report

To the unitholders of NZSX 50 Portfolio Fund

We have audited the financial statements on pages 36 and 37. The financial statements provide information about the past financial performance and cash flows of NZSX 50 Portfolio Index Fund "the Fund" for the period ended 31 December 2004 and its financial position as at that date. This information is stated in accordance with the accounting policies set out on page 38.

### Manager's Responsibilities

The Fund's Manager is responsible for the preparation and presentation of financial statements which give a true and fair view of the financial position of the Fund as at 31 December 2004 and its financial performance and cash flows for the twelve months ended on that date.

### Auditors' Responsibilities

We are responsible for expressing an independent opinion on the financial statements presented by the Manager and reporting our opinion to you.

### Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- (a) the significant estimates and judgements made by the Manager in the preparation of the financial statements; and
- (b) whether the accounting policies are appropriate to the circumstances of the Fund, consistently applied and adequately disclosed.

We have conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have no relationship with or interests in the Fund other than in our capacities as auditors and tax advisors.

### Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

- (a) proper accounting records have been kept by the Fund as far as appears from our examination of those records; and
- (b) the financial statements on pages 36 and 37:
  - (i) comply with generally accepted accounting practice; and
  - (ii) are in accordance with the trust deed dated 15 October 2004; and
  - (iii) give a true and fair view of the financial position of the Fund as at 31 December 2004 and its financial performance and cash flows for the year ended on that date.

Our audit was completed on 14 February 2005 and our unqualified opinion is expressed as at that date.



Chartered Accountants, Wellington.



# FINANCIAL STATEMENTS FOR THE NZX AUSTRALIAN MIDCAP INDEX FUND

## STATEMENT OF FINANCIAL PERFORMANCE FOR THE PERIOD ENDED 31 DECEMBER 2004

	Note	3 months to 31 Dec 2004 \$000
<b>REVENUE</b>		
Company dividends		137
Tax expense	2	(45)
<b>Surplus for the Period</b>		<b>92</b>

## STATEMENT OF MOVEMENTS IN UNITHOLDERS FUNDS

	Note	3 months to 31 Dec 2004 \$000
Unitholders' Funds as at the Initial Public Offering		33,182
Surplus for the period		92
Net subscriptions received (redeemed)	7	(1,747)
Increase (Decrease) in value of investments		6,548
Distribution to Unitholders	3	-
<b>Unitholders' Funds as at 31 December 2004</b>		<b>38,075</b>

## STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2004

	Note	As at 31 Dec 2004 \$000
<b>ASSETS</b>		
Cash at call		137
Taxation refund		-
Investments at market value	6	38,075
		<b>38,212</b>
<b>LIABILITIES AND UNITHOLDERS' FUNDS</b>		
Taxation payable		45
Distribution payable to Unitholders	3	92
Unitholders' Funds	4	38,075
		<b>38,212</b>

The Board of Directors of NZX Funds Management Limited authorised these financial statements for issue on 14 February 2005.

D G Trow, Chairman  
NZX Funds Management Limited

M R Weldon, Director  
NZX Funds Management Limited

## FINANCIAL STATEMENTS FOR THE NZX AUSTRALIAN MIDCAP INDEX FUND CONTINUED

### STATEMENT OF CASH FLOWS

FOR THE PERIOD ENDED 31 DECEMBER 2004

	Note	3 months to 31 Dec 2004 \$000
<b>Cash Flows from Operating Activities</b>		
Cash was provided from:		
Company dividends		137
<b>Net cash flows from operating activities</b>		<b>137</b>
<b>Cash Flows from Financing Activities</b>		
Cash was provided from:		
Subscription to issue of shares		33,182
Cash was applied to:		
Investment in securities	3	33,182
<b>Net cash flows from financing activities</b>		<b>-</b>
Net increase (decrease) in cash held		137
Opening cash balance		-
<b>Cash at 31 December 2004</b>		<b>137</b>
<b>Reconciliation of Surplus after tax with net cash flows from operating activities</b>		
Surplus for the period		92
Movement in taxation payable		45
<b>Net cash flows from operating activities</b>		<b>137</b>



# NOTES TO THE FINANCIAL STATEMENTS FOR THE NZX AUSTRALIAN MIDCAP INDEX FUND

## 1. Statement of accounting policies

The financial statements presented are the financial statements of the NZX Australian MidCap Index Fund (the Fund), a Group Investment Fund established under the Trustee Companies Act 1967 and a Trust Deed dated 10 August 2004. The Fund is an Issuer as defined in the Financial Reporting Act 1993 and these financial statements are presented in compliance with the Act.

The following accounting policies, recognised as appropriate for the measurement and reporting of financial performance, cashflows and financial position, have been followed in the preparation of these financial statements. The historical cost method, as modified by the revaluation of investments, has been used.

### REVENUE

Company dividends are recognised in the Statement of Financial Performance at the date declared by the company in which the shareholding is held.

### INVESTMENTS

As prescribed by the Trust Deed, the Fund only invests in the securities included in the S&P/ASX MidCap 50 Index in proportion to the market capitalisation of the Index and the available capital of the Fund. Units are held in Australian dollars and are converted at balance date at the closing exchange rate prevailing at that date. Investors are exposed to currency rate risk through exchange rate movements in the value of investments held at balance date (see Note 6).

The Fund holds a portfolio of marketable securities for the long term as an investment vehicle for individual Unitholders and distributions are confined only to dividends received from the portfolio of investments. As a consequence, all changes in value of investments, both realised and unrealised are recorded in the Statement of Movements in Unitholders Funds.

### TAXATION

Taxation is calculated using the liability method on a comprehensive basis.

The Fund has a binding ruling from the Inland Revenue Department that states that any gains realised from the sale of shares, in order to match the composition and weighting of the Index or to fund a redemption of units, will not be taxable to the Fund. The ruling has been granted until 30 June 2007.

The Fund is liable for tax at the prevailing company rate of 33% on dividends and interest from the companies listed in Note 6. With most of this income, the Fund is able to utilise imputation credits to satisfy the tax liability. The Fund pays tax to the extent that the imputation credits do not cover the tax liability in full. Hence all distributions to Unitholders are made on a fully imputed basis.

### SURPLUS FOR DISTRIBUTION TO UNITHOLDERS

Dividend and interest income from investments is attributed to Unitholders on the basis of the number of units held at the time the income is declared.

Distribution of this income is made on a fully imputed basis as at 28 February and 31 August each year. Pursuant to the Trust Deed, management charges are deducted from these distributions at the time that the payments to Unitholders are made.

### CONCENTRATION OF FUNDING

Funding is sourced solely from investor deposits. Investors are primarily corporate organisations and other financial institutions.

### CASH FLOWS

Cash is considered to be cash on hand and current accounts in banks, net of bank overdrafts. Operating activities include all transactions or events that are not investing or financing activities. Investing activities are those activities that relate to the acquisition, holding and disposal of investments and securities not falling within the definition of cash.

Financing activities are those activities that relate to cash contributions from or cash distributions to Unitholders.

### CHANGES IN ACCOUNTING POLICIES

There have been no material changes to accounting policies during the period.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE NZX AUSTRALIAN MIDCAP INDEX FUND CONTINUED

### 2. Taxation

	3 months to 31 Dec 2004 \$000
Income tax expense	
Surplus before tax	137
Taxable Income	137
Taxation at 33%	45
Current taxation expense	45

### 3. Distribution to Unitholders

	Total attributed to Unitholders Dec 2004 \$000	Payments to the Manager \$000	Payments to Unitholders
Surplus for the period	92	-	92
Cash paid to Unitholders/Manager	-	-	-
To be paid	92	-	92

### 4. Unitholders' Funds

As at 31 December 2004 there were 8,571,445 units on issue. The net asset backing of each unit at 31 December 2004 was \$4.4421.

### 5. Related Parties

The Fund is managed by NZX Funds Management Limited, a wholly owned subsidiary of the New Zealand Exchange Limited. NZX Funds Management Limited receives a management fee directly from the Unitholders. Under the Trust Deed the Manager pays Trustee, Custodian, Registrar and Audit charges in respect of the Fund and receives all basket application and withdrawal fees and interest earned on cash at call. Adjustments to rebalance the Fund against the S&P/ASX MidCap 50 Index have been borne by the Manager.

### 6. Investments as at 31 December 2004

Company	Number of Securities	Market value (\$A)
Aristocrat Leisure Ltd	115,772	1,151,931
Alinta Ltd	71,690	590,009
Ansell Ltd	46,462	414,906
APN News & Media Ltd	95,293	490,759
Australian Stock Exchange	34,006	693,722
AWB Ltd	85,990	391,255
Billabong International	44,888	513,968
Challenger Financial	122,222	358,110
Centro Properties Group	254,828	1,472,906
Cochlear Ltd	17,598	444,350
Commonwealth Property Office Fund	425,792	532,240
Computershare Ltd	136,344	773,070
Caltex Australia Ltd	45,252	491,437

CONTINUED OVER

## NOTES TO THE FINANCIAL STATEMENTS FOR THE NZX AUSTRALIAN MIDCAP INDEX FUND CONTINUED

Company	Number of Securities	Market value (\$A)
DB RREEF Trust	717,225	946,737
DCA Group Ltd	148,599	534,956
Futuris Corporation	208,095	449,485
Foodland Associated	39,320	954,296
CFS Gandel Retail Trust	406,557	650,491
Gunns Ltd	107,875	510,249
HHG PLC	493,854	711,150
Harvey Norman Holdings	198,202	624,336
ING Industrial Fund	222,800	481,248
Iluka Resources Ltd	78,035	490,840
ING Office Fund	324,156	431,127
Investa Property Group	486,913	1,100,423
Leighton Holdings Ltd	44,969	554,468
Lihir Gold Ltd	343,873	398,893
Lion Nathan Ltd	96,761	832,145
Macquarie Airports	424,191	1,331,960
Macquarie Countrywide	203,873	424,056
Macquarie Goodman Industrial Trust	551,868	1,307,927
Macquarie Office Trust	545,117	703,201
Multiplex Grp	199,833	1,087,092
National Foods Ltd	71,812	452,416
Oil Search Ltd	299,172	541,501
Onesteel Ltd	184,412	473,939
Oxiana Ltd	390,967	387,057
Pacific Brands Ltd	168,606	537,853
Perpetual Trustees Australia Ltd	12,636	794,804
Paperlinx Ltd	149,245	704,436
Patrick Corporation	203,057	1,336,115
ResMed Inc.	112,655	728,878
Sonic Healthcare Ltd	82,552	1,005,483
Sigma Company Ltd	46,216	430,271
Sims Group Ltd	30,229	538,076
Southcorp Ltd	202,738	869,746
Transurban Group	178,843	1,198,248
Ten Network Holdings	127,650	529,748
Toll Holdings Ltd	74,729	955,785
West Australian News	68,915	617,478
		<b>34,945,577</b>

The NZ dollar equivalent of A\$34,945,577 is NZ\$38,075,216. The investments are registered in the name of Custodial Services Limited, the custodian of the Fund.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE NZX AUSTRALIAN MIDCAP INDEX FUND CONTINUED

### 7. Unitholder subscriptions and redemptions

Subscriptions subsequent to the initial public offering have been made in the form of baskets of constituent securities of the S&P/ASX MidCap 50 Index (i.e. not for cash) and therefore have not been included in the Statement of Cash Flows. Redemptions are made in the form of baskets and also have not been included in the Statement of Cash Flows.

### 8. Financial Instruments

#### CREDIT RISK

Credit risk is the potential risk of financial loss resulting from the failure of counter parties to honour fully the terms and conditions of a contract with the Fund. Financial instruments that potentially subject the Fund to credit risk consist primarily of cash, accounts receivable and investments. The maximum credit risk of financial instruments is considered to be book value. The risk of non-recovery of monetary assets is considered minimal due to the quality of counter parties dealt with. Maximum exposures to credit risk at balance date are:

	Dec 2004 \$000
Cash	137
Investments	38,075

#### FAIR VALUE

The carrying amount of financial instruments is equal to their fair value.

#### INTEREST RATE RISK

Interest rate risk is the risk of earnings loss arising from adverse movements in levels and volatilities of interest rates. The fund has exposure to interest rate risk on its balances. The interest rate risk arising from this is managed by the manager.

### UNITHOLDER INFORMATION

Distribution of security holders and security holdings as at 28 February 2005

	No. of holders	% of holders	No. of units	% of units
1 – 4,999	1,835	82.20%	3,172,708	35.76%
5,000 – 9,999	270	12.10%	1,687,762	19.02%
10,000 – 49,999	118	5.29%	2,015,873	22.72%
50,000 – 99,999	3	0.13%	215,533	2.43%
100,000 – 499,999	5	0.22%	1,270,916	14.33%
500,000 and over	1	0.06%	508,653	5.74%
Totals	2,232	100.00%	8,871,445	100.00%

## NOTES TO THE FINANCIAL STATEMENTS FOR THE NZX AUSTRALIAN MIDCAP INDEX FUND CONTINUED

### 20 LARGEST REGISTERED HOLDERS OF QUOTED EQUITY SECURITIES AS AT 28 FEBRUARY 2005

Full Name	Total units	Percentage
Custodial Services Ltd	508,653	5.73%
First NZ Capital Custodians Ltd	321,027	3.61%
Forbar Custodians Ltd	301,518	3.39%
Forbar Custodians Ltd	288,180	3.24%
Custodial Services Ltd	237,845	2.68%
Custodial Services Ltd	122,346	1.37%
ABN AMRO Craigs Ltd	82,675	0.93%
Forbar Custodians Ltd	67,353	0.75%
Custodial Services Ltd	65,505	0.73%
Norman Haynes	40,782	0.45%
IFR Nominees Ltd	40,782	0.45%
Elwyn Dianne Mayall	40,782	0.45%
Leveraged Equities Custodians Ltd	39,877	0.44%
NZ Guardian Trust Company Ltd	38,000	0.42%
Guardian Trust Investment Nominees Ltd	36,000	0.40%
Gavin Ronald Walker & William Malcolm Paterson & Susan Eleanor Walker	33,985	0.38%
Gavin Ronald Walker & William Malcolm Paterson & Susan Eleanor Walker	33,985	0.38%
Flora Fitzherbert Rudman	32,626	0.36%
Investment Custodial Services Ltd	29,883	0.33%
James Douglas Anderson	27,188	0.30%
	2,388,992	26.79%

### SUBSTANTIAL SECURITY HOLDERS

As at 28 February 2005, the Fund has not received any notices from Substantial Security Holders pursuant to section 26 of the Securities Amendment Act 1988.

### DIRECTORS INTERESTS IN UNITS AS AT 31 DECEMBER 2004

	Beneficial	Non-Beneficial
Donald Trow	5,438	-
Mark Weldon	5,374	-
Geoffrey Brown	2,719	-
Martin Rea	544	-

### WAIVERS GRANTED

New Zealand Exchange Limited has granted, either fully, partially or subject to conditions, the following waivers from the Listing Rules that were applicable at 31 December 2004:

Listing Rules: 3.1.1(a), 3.1.1(b), 3.1.3, 3.3.1, 3.3.2 to 3.3.12, 3.4, 3.5, Section 4, 7.1.7, 7.3, 7.5, 7.6.1 to 7.6.3, 7.11.1, 8.2.1 to 8.2.3, 8.3.1, 9.1.1(b), 9.2.1, 10.4.2, 10.5.1(b), 10.5.2, 10.8.1(a), 11.1.1, and Appendix 2.

## Auditor's Report

To the Unitholders of NZX Australian MidCap Index Fund

We have audited the financial statements on pages 44 and 45. The financial statements provide information about the past financial performance and cash flows of NZX Australian MidCap Index Fund "the Fund" for the period ended 31 December 2004 and its financial position as at that date. This information is stated in accordance with the accounting policies set out on page 46.

### Manager's Responsibilities

The Fund's Manager is responsible for the preparation and presentation of financial statements which give a true and fair view of the financial position of the Fund as at 31 December 2004 and its financial performance and cash flows for the twelve months ended on that date.

### Auditors' Responsibilities

We are responsible for expressing an independent opinion on the financial statements presented by the Manager and reporting our opinion to you.

### Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- (a) the significant estimates and judgements made by the Manager in the preparation of the financial statements; and
- (b) whether the accounting policies are appropriate to the circumstances of the Fund, consistently applied and adequately disclosed.

We have conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have no relationship with or interests in the Fund other than in our capacities as auditors and tax advisors.

### Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

- (a) proper accounting records have been kept by the Fund as far as appears from our examination of those records; and
- (b) the financial statements on pages 44 and 45:
  - (i) comply with generally accepted accounting practice; and
  - (ii) are in accordance with the trust deed dated 10 August 2004; and
  - (iii) give a true and fair view of the financial position of the Fund as at 31 December 2004 and its financial performance and cash flows for the year ended on that date.

Our audit was completed on 14 February 2004 and our unqualified opinion is expressed as at that date.



Chartered Accountants, Wellington.



## CORPORATE GOVERNANCE

The Issuer of the Funds is the manager, NZX Funds Management Limited. The role of the manager and its board in relation to the management of the Funds is unlike the role of a board in relation to the management of the business and affairs of a listed company. The Trust Deeds for the Funds contain detailed provisions about the investment of the Funds' money and the role of the manager of the Funds. The manager of the Funds has no role in making business decisions in relation to the Funds. The nature of the business of the Funds is solely the investment in a clearly defined set of securities. The Trust deeds set out what securities can be acquired and in what circumstances those securities must be acquired and sold.

For the reasons set out above, much of the Corporate Governance Best Practice Code (Code) set out in Appendix 16 of the Listing Rules is not appropriate to the manager of the Funds. This section describes the current practise of NZXFM as it relates to corporate governance matters. It differs from the Code in a number of ways for the reasons set out above.

### THE BOARD

The board is currently comprised of one Independent non-executive director (the Chairman, Donald Trow) and three executive directors (Mark Weldon, Geoffrey Brown and Martin Rea). All of the executive directors are employees of NZX. The manager has no employees. Services are provided to NZXFM by employees of NZX. The board is responsible for the direction and supervision of the business and affairs of the manager and its management of the Smartshares Funds. Responsibility for the day to day management of the manager and the Funds has been delegated to director of NZXFM and chief executive of NZX, Mr Weldon.

### COMMITTEES

The board of the manager has one committee, an Audit Committee, comprising Mr Trow, Mr Rea and Mr Timothy Saunders, a director of NZX. The audit committee meets as required.

NZXFM has been granted a waiver from Listing Rules 3.3.1(c), 3.6.2(a) and 3.6.2 (c) to enable it to have one Independent director and for the Audit Committee to include an Independent director from NZXFM's parent company. The waivers have been granted on the conditions that:

- There is an Audit Committee in place for each Fund;
- The waivers and the conditions are outlined in each Fund's Half Yearly and Annual Reports;
- At least one of NZXFM's Directors sits on NZXFM's Audit Committee for the Funds, whenever it convenes;
- NZXFM's Audit Committee for each Fund has a majority of Directors who are Independent Directors of NZXFM, or Independent Directors of NZX, or both;
- Every Independent Director of NZX that sits on NZXFM's Audit Committee for each Fund must provide the Special Division with written certification that they accept the obligations and responsibilities of an Audit Committee imposed by the Listing Rules in relation to the Fund;
- The Audit Committee for each Fund has full powers to require NZXFM to provide any information or documents relating to any Fund which it requires to enable it to meet the obligations of an Audit Committee;
- The Directors of NZXFM must respond to any recommendations made to its board from the Audit Committee for each Fund; and
- The nature of each Fund's business and its operations do not materially change.

NZXFM has no remuneration or nomination committee. There is no nomination committee because the manager is a wholly-owned subsidiary of New Zealand Exchange Limited (NZX) which appoints the board of directors of the manager. There is no remuneration committee because the manager has no employees. Furthermore, the Chairman receives director's fees from NZXFM, but otherwise no director receives any remuneration directly from NZXFM. The manager is entitled to remuneration in respect of management of the funds. Information about the remuneration received by the Manager during 2004 can be found in the financial statements for the Funds set out in this report.

To the extent applicable, NZXFM intends to adopt the governance structures and principles adopted by its parent company NZX including the code of ethics and audit charter.



**NZX Funds Management Limited**

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