

ANNUAL
REPORT
2005
smartshares





2005

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CHAIRMAN'S REPORT

When we launched the Smartshares brand in 2004 we thought we had broken the mould with low cost, genuinely transparent, efficient ways for New Zealanders to invest, save and grow their wealth. We had indeed broken the mould. What we did not foresee at the time was that we would find ourselves breaking it over again, so that more and more New Zealanders could have access – either directly or indirectly – to investing, saving and growing with Smartshares.

The first time the mould was broken in 2005 was in the extension of the Regular Savings Plan across all four funds in the Smartshares family. Previously offered only for SmartFONZ investors, the Regular Savings Plan proved so popular that we opted to open it up to investors in SmartTENZ, SmartMIDZ and SmartMOZY. The results have exceeded expectations, even at this early stage, with large numbers of existing investors in those three funds availing themselves of the opportunity to increase their holdings via monthly contributions.

The second mould-breaker for Smartshares in 2005 was winning the mandate to run a passively-managed New Zealand equity sector of the New Zealand Superannuation Fund (NZSF). The appointment of Smartshares Limited complemented the three existing active New Zealand equity mandates, and provides the NZSF with greater flexibility in how it structures the amount of active risk it takes in New Zealand equities.

Having recast the mould, we broke it a third time by developing a cash subscription process which provides investors an additional way to buy their fund units. Investors can now apply directly to Smartshares Limited by filling in the application form from the Investment Statement on the Smartshares website (www.smartshares.co.nz) and sending it to the Smartshares registry along with their cheque.

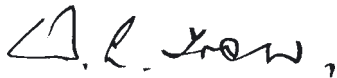
The launch of the cash application facility for Smartshares funds on 19 December saw a flurry of new investment that boosted funds under management – all the more surprising as it happened in the lead-up to Christmas, when New Zealanders are more typically indulging in retail spending rather than saving and investing for their future.

But by far the biggest breakout from the staid old investment mould in New Zealand is the continuing growth in funds under management during 2005. When the New Zealand equity retail managed fund sector saw a net outflow of \$106.5 million by year end, over the same period Smartshares continued to grow. By year end Smartshares funds under management had climbed from \$184 million to \$197 million – proof positive that New Zealanders are indeed a nation of latent savers: all they needed was a means of saving and investing that removed some of the mystique and much of the cost.

Is there a typical profile for Smartshares investors? No. Some are new investors who may have found the share market irrelevant or intimidating until the arrival of Smartshares. Some are experienced investors who were looking for a diversified core for their existing portfolio. And there are significant numbers of overseas investors who recognise the value in the New Zealand market and wish to place some dollars here for the long haul.

Whichever profile fits you, each Smartshares investor is unique to us. By the end of 2005, around 10,000 of you were sharing in the benefits of strong economic performance both here and, particularly, across the Tasman. And because of Smartshares' mould-breaking structure, those benefits are passed on directly to you, without the raft of underlying costs normally associated with actively managed investment funds.

2006 will see Smartshares hone the focus on even smarter and better ways to give more New Zealanders the opportunity to secure their future with Smartshares. We look forward to sharing these initiatives with you as the year progresses.



Don Trow
Chairman

INVEST

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VIEW

GROW

smartTENZ

NZX 10 Fund (smartTENZ)

Performance for the Financial Year Ended 31 December 2005

FUND PERFORMANCE

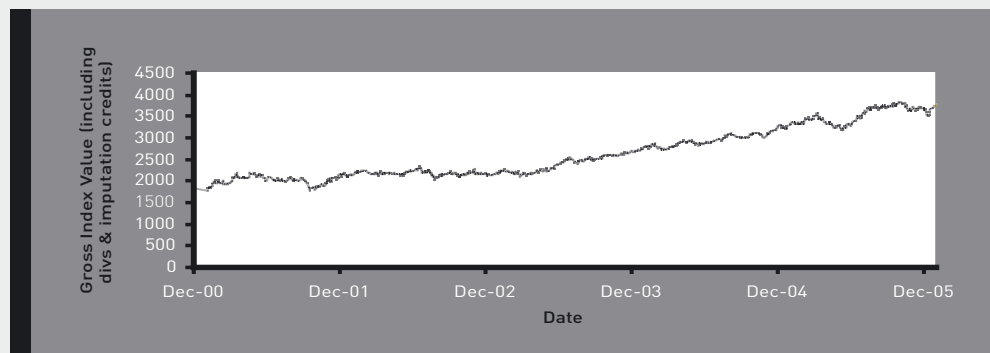
For the year to 31 December 2005, the NZX 10 Fund (smartTENZ) returned 2.94% before the payment of any dividends. For the full year, distributions totalled 7.21 cents per unit gross*. This was made up of a dividend of 2.916 cents per unit gross paid in March and another of 4.289 cents per unit gross paid in September. This equates to a gross dividend yield of 5.88% based on the market price at the end of 2005 (market price at end of 2005: \$1.225).

smartTENZ had 64.3 million units on issue with a market capitalisation of \$79.9 million as at 31 December 2005.

INDEX PERFORMANCE

The NZX 10 Gross Index, which includes any dividends and imputation credits paid, returned 13.14% over 2005. During the last five years the NZX 10 Gross Index has had an annualised return of 15.66% per annum.

Performance of the NZX 10 Gross Index



There were four constituent company changes to the NZX 10 Index in 2005:

- Westpac (NZ) Investments, Sky Network Television Limited, Kiwi Income Property Trust and Vector all entered the Index; and
- The Warehouse Group Limited, Independent Newspapers Limited, Westpac (NZ) Investment Limited and Carter Holt Harvey Limited all exited the Index.



KEY METRICS FOR THE FINANCIAL YEAR
ended 31 December 2005

	31 December 2005	31 December 2004	31 December 2003	31 December 2002	31 December 2001
NZX 10 Capital Index	1,241.55	1,191.53	1062.40	878.60	917.25
Net assets per unit	\$1.242	\$1.192	\$1.062	\$0.879	\$0.917
Distribution per unit over year*	7.21 cents	6.99 cents	5.36 cents	4.43 cents	4.32 cents
Total value of Unitholders' funds	\$79,874,265	\$83,937,327	\$83,687,260	\$78,564,848	\$88,232,337

* Before management fees are deducted

smartMIDZ

NZX MidCap Index Fund (smartMIDZ) Performance for the Financial Year ended 31 December 2005

FUND PERFORMANCE

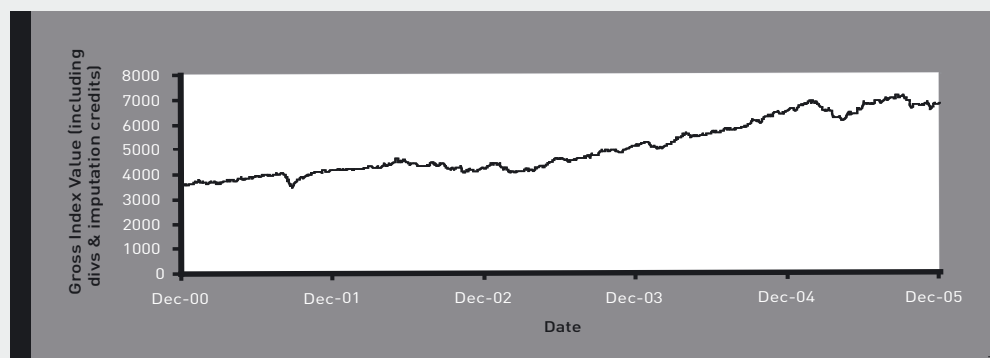
For the year to 31 December 2005, the NZX MidCap Index Fund (smartMIDZ) returned -2.06% before the payment of any dividends. For the full year, distributions totalled 14.56 cents per unit gross*. This was made up of a dividend payment of 7.748 cents per unit gross paid in June and another of 6.810 cents per unit gross paid in December. This equates to a gross dividend yield of 6.12% based on the market price at the end of 2005 (market price at the end of 2005: \$2.38).

smartMIDZ had 17.8 million units on issue with a market capitalisation of \$42.5 million as at 31 December 2005.

INDEX PERFORMANCE

The NZX MidCap Gross Index, which includes any dividends and imputation credits paid, returned 3.93% over 2005. During the last five years the NZX MidCap Gross Index has had an annualised return of 13.73%.

Performance of the NZX MidCap Gross Index



There were a number of constituent company changes to the NZX MidCap Index in 2005:

- ▶ The Warehouse Group Limited, Macquarie Goodman Property Trust, ING Property Trust, New Zealand Oil & Gas Limited, Calan Healthcare Properties Trust, Wrightson Limited, Vector Limited, PGG Wrightson Limited and Carter Holt Harvey Limited all entered the Index; and



- Westpac (NZ) Investments Limited, Skellmax Industries Limited, Sky Network Television Limited, Kiwi Income Property Trust, Ports of Auckland Limited, NGC Holdings Limited, Feltex Carpets Limited, Restaurant Brands Limited, Wrightson Limited, Capital Properties Limited and Vector Limited all exited the Index.

KEY METRICS FOR THE FINANCIAL YEAR ended 31 December 2005

	31 December 2005	31 December 2004	31 December 2003	31 December 2002	31 December 2001
NZX MidCap Capital Index	2,385.35	2,431.94	2,086.01	1,893.84	2,003.34
Net assets per unit	\$2.385	\$2.431	\$2.086	\$1.893	\$2.003
Distribution per unit over year*	14.56 cents	15.76 cents	10.16 cents	17.01 cents	15.92 cents
Total value of Unitholders' funds	\$42,455,407	\$44,186,596	\$35,990,048	\$29,092,187	\$27,399,339

* Before management fees are deducted

NZX 50 Portfolio Index Fund (smartFONZ) Performance for the Financial Year ended 31 December 2005

FUND PERFORMANCE

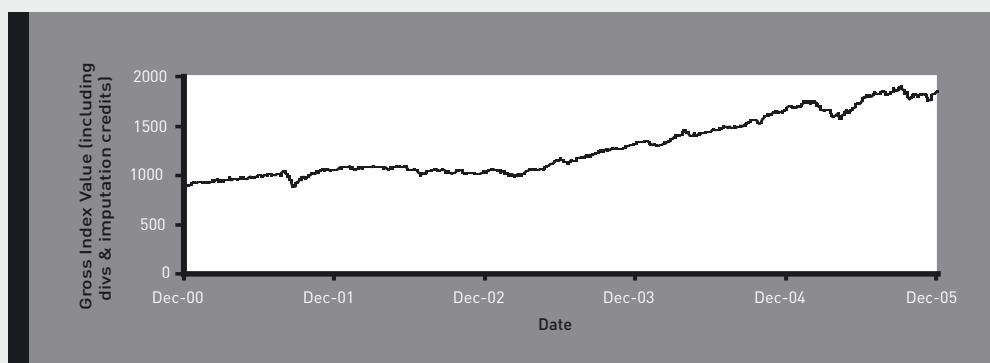
For the year to 31 December 2005, the NZX 50 Portfolio Index Fund (smartFONZ) returned 2.74% before the payment of any dividends. For the full year, distributions totalled 4.57 cents per unit gross*. Only one distribution in September was made for smartFONZ in 2005, at which the full 4.57 cents per unit gross was distributed (due to the Fund only having operated for three months when the March distribution was due). smartFONZ had a gross dividend yield of 3.05% based on the market price at the end of 2005 (market price at the end of 2005: \$1.50).

smartFONZ had 19.4 million units on issue with a market capitalisation of \$29.3 million as at 31 December 2005.

INDEX PERFORMANCE

The NZX 50 Portfolio Gross Index, which includes any dividends and imputation credits paid, returned 9.27% over 2005. During the last five years the NZX 50 Portfolio Gross Index has had an annualised return of 15.56% per annum.

Performance of the NZX 50 Portfolio Gross Index



There were a number of constituent company changes to the NZX 50 Portfolio Index in 2005:

- Macquarie Goodman Property Trust, Sky Network Television Limited, BIL International Limited, ING Property Trust, New Zealand Oil & Gas Limited, Calan Healthcare Property Trust, Wrightson Limited, Vector Limited, Westpac Banking Corporation, PGG Wrightson Limited, and Goodman Fielder Limited all entered the Index; and

- Skellmax Limited, Independent Newspapers Limited, Baycorp Advantage Limited, Westpac (NZ) Investment Limited, Ports of Auckland Limited, NGC Holdings Limited, Feltex Carpets Limited, Restaurant Brands Limited, Wrightson Limited, and Capital Properties New Zealand Limited all exited the Index.

KEY METRICS FOR THE FINANCIAL YEAR

ended 31 December 2005

	31 December 2005	31 December 2004
NZSX 50 Portfolio Capital Index	1,514.94	1,473.87
Net asset value per unit	\$1.515	\$1.474
Distribution per unit over year*	4.57 cents	N/A
Total value of Unitholders' funds	\$29,324,825	\$17,600,022

* Before management fees are deducted

smartMOZY

NZX Australian MidCap Index Fund (smartMOZY) Performance for the Financial Year ended 31 December 2005

FUND PERFORMANCE

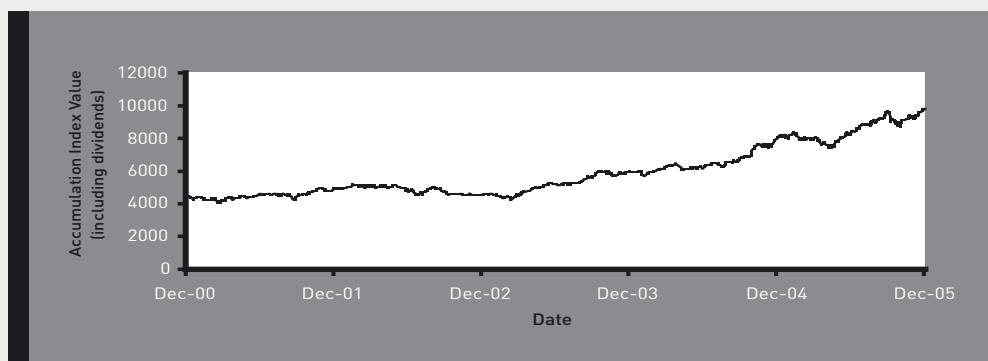
For the year to 31 December 2005, the NZX Australian MidCap Index Fund (smartMOZY) returned 16.55% before the payment of dividends. For the full year, distributions totalled 14.00 cents per unit gross*. This was made up of a dividend payment of 5.774 cents per unit gross paid in March and another dividend of 8.226 cents per unit gross paid in September. At the end of the financial year smartMOZY had a gross dividend yield of 2.72% based on the market price at the end of 2005 (market price at the end of 2005: \$5.14).

smartMOZY had 8.8 million units on issue with a market capitalisation of NZ\$45.4 million as at 31 December 2005.

INDEX PERFORMANCE

The S&P/ASX MidCap 50 Accumulation Index, which includes dividends paid, returned 21.74% over 2005. During the last five years it has had an annualised gross return of 17.59% per annum.

Performance of the S&P/ASX Accumulation Index Value (NZD)



There were a number of changes to the constituent companies in the S&P/ASX MidCap 50 Index in 2005:

- Macquarie Communications Infrastructure Group, UniTAB Limited, Zinifex Limited, Centro Retail, CSR Limited, Babcock & Brown Limited, Metcash Limited, Downer Edi Limited, Symbion Health Limited, Mayne Pharma Limited, and Tattersalls Limited all entered the Index; and



- Southcorp Limited, National Foods Limited, Transurban Group Limited, Aristocrat Leisure Limited, Macquarie Goodman Group, Henderson Group PLC, Centro Retail, Macquarie Airports, Foodland Associated Limited, Centro Properties Group, and Gunns Limited all exited the Index.

KEY METRICS FOR THE FINANCIAL YEAR

ended 31 December 2005

	31 December 2005	31 December 2004
S&P/ASX MidCap 50 Index (NZD)	5,183.19	4,441.92
Net assets per unit (NZD)	\$5.183	\$4.442
Distribution per unit over year*	14.00 cents	N/A
Total value of Unitholders' funds	NZ\$ 45,385,992	NZ\$ 38,075,216

* Before management fees are deducted



2005

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FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

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NZX 10 Fund

Financial Statements for the Year Ended 31 December 2005

STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 31 December 2005

	Note	Dec 2005 \$000	Dec 2004 \$000
Company dividends		4,784	3,668
Tax expense	2	(195)	(98)
Surplus for the Period		4,589	3,570

STATEMENT OF MOVEMENTS IN UNITHOLDERS' FUNDS

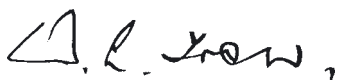
for the year ended 31 December 2005

	Note	Dec 2005 \$000	Dec 2004 \$000
Unitholders' Funds at beginning of period		83,937	83,687
Surplus for the period		4,589	3,570
Net subscriptions received/(redeemed)	7	(7,486)	(8,908)
Increase/(decrease) in value of investments		3,423	9,158
Distribution to Unitholders	3	(4,589)	(3,570)
Unitholders' Funds at end of Period		79,874	83,937

STATEMENT OF FINANCIAL POSITION
as at 31 December 2005

	Note	Dec 2005 \$000	Dec 2004 \$000
ASSETS			
Cash at call		2,225	1,798
Accounts receivable		128	56
Investments at market value	6	79,874	83,937
Total Assets		82,227	85,791
LIABILITIES AND UNITHOLDERS' FUNDS			
Accounts payable		123	81
Funds held for unit purchases		11	-
Tax payable		33	6
Distribution payable to Unitholders	3	2,186	1,767
Unitholders' Funds	4	79,874	83,937
Total Liabilities and Unitholders' Funds		82,227	85,791

The Board of Directors of Smartshares Limited authorised these financial statements for issue on 17 February 2006.



D G Trow
Chairman
Smartshares Limited



M R Weldon
Director
Smartshares Limited

FINANCIAL STATEMENTS | CONTINUED

NZX 10 FUND

STATEMENT OF CASH FLOWS for the year ended 31 December 2005

	Note	Dec 2005 \$000	Dec 2004 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Company dividends		4,711	3,668
Cash inflows from operating activities		4,711	3,668
Cash was applied to:			
Tax paid directly by the Fund		167	48
Cash outflows from operating activities		167	48
Net cash flows from operating activities		4,544	3,620
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from:			
Capital receipts		1,644	-
Interest received on behalf of the fund manager		40	-
Cash inflows from investing activities		1,684	-
Cash was applied to:			
Investment in securities		1,643	-
Cash outflows from investing activities		1,643	-
Net cash flows from investing activities		41	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from:			
Savings plan & direct purchase deposits		123	
Cash inflows from financing activities		123	
Cash was applied to:			
Units & securities purchased		111	-
Dividend reinvestment	3	1,071	-
Distributions directly to Unitholders	3	2,764	2,820
Management charge paid by Unitholders	3	335	275
Cash outflows from financing activities		4,281	3,095
Net cash flows from financing activities		(4,158)	(3,095)
Net increase in cash held		427	525
Opening cash balance		1,798	1,273
Cash at end of period		2,225	1,798
RECONCILIATION OF SURPLUS AFTER TAX WITH NET CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus for the period		4,589	3,570
Movement in tax payable		27	50
Movement in accounts receivable		(72)	-
Net cash flows from operating activities		4,544	3,620

NOTES TO THE FINANCIAL STATEMENTS

NZX 10 FUND

1. STATEMENT OF ACCOUNTING POLICIES

The financial statements presented are the financial statements of the NZX 10 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 NZX 10 Fund 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 2005 (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 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.

NOTES TO THE FINANCIAL STATEMENTS | CONTINUED

NZX 10 FUND

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.

Comparatives

Comparative figures where necessary have been restated to correspond to the current year classifications.

Financial Instruments

Financial instruments carried on the statement of financial position include cash, accounts receivable, investments and payables. The particular recognition methods are disclosed in the individual policy statements associated with each item.

2. TAXATION

	Dec 2005 \$000	Dec 2004 \$000
INCOME TAX EXPENSE		
Surplus before tax	4,784	3,668
Imputation credits	2,066	1,626
Taxable Income	6,850	5,294
Taxation at 33%	2,261	1,747
Less imputation credits and FITC	(2,066)	(1,649)
Current taxation expense	195	98
IMPUTATION CREDITS		
Imputation credits received during the period	2,032	1,626
Tax paid during the period	167	48
Imputation credits brought forward	1,764	1,455
	3,963	3,129
Credits attached to distributions paid	1,851	1,365
Credits to be attached to next distribution	2,112	1,764

3. DISTRIBUTION TO UNITHOLDERS

	Total Attributed to Unitholders Dec 2005 \$000	Payments to the Manager \$000	Payments to Unitholders \$000	Total Attributed to Unitholders Dec 2004 \$000
To be paid at beginning of period	1,767	-	1,767	1,292
Surplus for the period	4,589	335	4,254	3,570
Cash paid to Unitholders/Manager	6,356 (4,170)	335 (335)	6,021 (3,835)	4,862 (3,095)
To be paid	2,186	-	2,186	1,767

4. UNITHOLDERS' FUNDS

As at 31 December 2005 there were 64,334,297 (Dec 2004: 70,445,142) units on issue. The net asset backing of each unit at 31 December 2005 was \$1.2416 (Dec 2004: \$1.1915).

5. RELATED PARTIES

The Fund is managed by Smartshares Limited, a wholly owned subsidiary of New Zealand Exchange Limited. Smartshares 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. At 31 December 2005 the Fund had a payable to Smartshares Limited of \$121,000 (Dec 2004: \$81,000).

6. INVESTMENTS AS AT 31 DECEMBER 2005

Company	Number of Securities	Market Value \$
Auckland International Airport Limited	3,144,944	6,226,989
Carter Holt Harvey Limited	1,418,702	3,546,755
Contact Energy Limited	1,483,196	9,833,589
Fisher & Paykel Appliances Limited	678,948	2,355,949
Fisher & Paykel Healthcare Limited	1,305,917	4,962,485
Fletcher Building Limited	1,193,859	9,013,635
Kiwi Income Property Trust	1,817,507	2,308,234
Sky City Entertainment Group Limited	1,075,245	5,042,899
Sky Network Television Limited	1,000,931	6,305,865
Telecom Corporation of New Zealand Limited	5,037,864	30,277,865
		\$79,874,265

The market value of securities held at 31 December 2004 was \$83,937,327. The investments are registered in the name of The New Zealand Guardian Trust Company Limited, the custodian of the Fund.

NOTES TO THE FINANCIAL STATEMENTS | CONTINUED

NZX 10 FUND

7. UNITHOLDER SUBSCRIPTIONS AND REDEMPTIONS

Subscriptions subsequent to the initial public offering can be made in the form of baskets of constituent securities of the NZX 10 Index (i.e. not for cash) and therefore have not been included in the Statement of Cash Flows. Redemptions can also be made in the form of baskets and therefore 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 counterparties 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 counterparties dealt with. The Fund does not require collateral or other security to support financial instruments with credit risk. Maximum exposures to credit risk at balance date are:

	Dec 2005 \$000	Dec 2004 \$000
Cash	2,225	1,798
Accounts receivable	128	56
Investments	79,874	83,937

Fair Value

The carrying amount of financial instruments approximates 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 does not have any exposure to interest rate risk.

9. NEW ZEALAND INTERNATIONAL FINANCIAL REPORTING STANDARDS

In December 2002 the New Zealand Accounting Standards Review Board announced that the New Zealand equivalents to the International Financial Reporting Standards (IFRS) will apply to all New Zealand entities for the periods commencing on or after 1 January 2007 with the opportunity to early adopt by up to two years. Smartshares Limited, manager of the NZX 10 Fund, intends to adopt NZIFRS for the Fund for the year ended 31 December 2007.

Smartshares Limited has a project to identify the differences between existing NZ GAAP and NZIFRS as they impact on the NZX 10 Fund.

UNITHOLDER INFORMATION NZX 10 FUND

DISTRIBUTION OF SECURITY HOLDERS AND SECURITY HOLDINGS as at 31 January 2006

	No. of Holders	% of Holders	No. of Securities	% of Securities
Up to 6,999	1,620	46.29	6,362,329	9.89
7,000 to 499,999	1,872	53.48	40,366,347	62.72
500,000 to 1,499,999	5	0.14	2,741,462	4.26
1,500,000 to 4,999,999	2	0.06	5,934,961	9.22
5,000,000 and over	1	0.03	8,941,973	13.91
Total	3,500	100	64,347,072	100

20 LARGEST REGISTERED HOLDERS OF QUOTED EQUITY SECURITIES as at 31 January 2006

Full Name	Total	Percentage
Sovereign Assurance Company Limited	8,941,973	13.90%
Metropolitan Life Assurance Company Limited	2,978,025	4.63%
Sovereign Superannuation Funds Limited	2,956,936	4.60%
National Nominees Limited	689,293	1.07%
Lancashire Limited	539,205	0.84%
Eeshala Nominees Limited	505,988	0.79%
Minnow Investments Limited	505,988	0.79%
Hendry Nominees Limited	500,988	0.78%
Westpac Nominees Limited	475,116	0.74%
Custodial Services Limited	462,027	0.72%
Eltub Nominees Limited	360,353	0.56%
Ross R Stuhlmann & Graham J Stevens & Stewart Co Trust Services Limited	325,115	0.51%
ABN AMRO Craigs Limited	288,288	0.45%
Dennis & Joan Row & SW Trust Services Limited	265,000	0.41%
NZ Guardian Trust Company Limited	241,276	0.38%
Thomas & Annette Schnackenberg	213,232	0.33%
Dennis & Joan Row & SW Trust Services Limited	209,700	0.33%
Jennifer K Higgins	198,652	0.31%
Maori Investments Limited	185,698	0.29%
Mary Campbell Riches	170,016	0.26%
	21,012,869	32.69%

UNITHOLDER INFORMATION | CONTINUED

NZX 10 FUND

Substantial Security Holders

As at 31 January 2006, 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 2005

	Beneficial	Non-Beneficial
David Trow	29,345	-
Mark Weldon	-	-
Geoffrey Brown	5,224	-

Waivers Granted

New Zealand Exchange Limited and/or the Special Division that regulates Smartshares Limited have granted, either fully, partially or subject to conditions, the following waivers from the Listing Rules that were applicable at 31 December 2005:

Listing Rules: 1.9.1, 3.1.1(a), 3.1.1(b), 3.1.3, 3.3.1(c) to 3.3.1C, 3.3.2 to 3.3.12, 3.4, 3.5, 3.6, Section 4, 7.1.7, 7.1.11, 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), 11.2.3(a), 11.1.1, and Appendix 2.

Auditors' Report

To the unitholders of NZX 10 Fund

We have audited the financial statements on pages 16 to 22. The financial statements provide information about the past financial performance and cash flows of NZX 10 Fund ("the Fund") for the year ended 31 December 2005 and its financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 19 and 20.

Manager's Responsibilities

The Funds Manager is responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Fund as at 31 December 2005 and its financial performance and cash flows for the year 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 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 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 capacity 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 16 to 22:
 - (i) comply with generally accepted accounting practice in New Zealand; and
 - (ii) are in accordance with the trust deed dated 7 May 1996; and
- (ii) give a true and fair view of the financial position of the Fund as at 31 December 2005 and its financial performance and cash flows for the year ended on that date.

Our audit was completed on 21 February 2006 and our unqualified opinion is expressed as at that date.



Chartered Accountants
Wellington

NZX MidCap Index Fund Financial Statements for the Year Ended 31 December 2005

STATEMENT OF FINANCIAL PERFORMANCE for the year ended 31 December 2005

	Note	12 Months Dec 2005 \$000	9 Months Dec 2004 \$000
Company dividends		1,789	1,413
Tax expense	2	(118)	5
Surplus for the Period		1,671	1,418

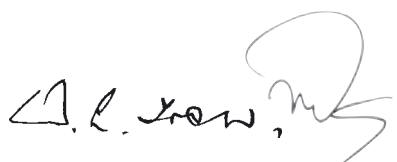
STATEMENT OF MOVEMENTS IN UNITHOLDERS' FUNDS for the year ended 31 December 2005

	Note	12 Months Dec 2005 \$000	9 Months Dec 2004 \$000
Unitholders' Funds at beginning of period		44,186	36,380
Surplus for the period		1,671	1,418
Net subscriptions received/(redeemed)	7	(931)	1,893
Increase/(decrease) in value of investments		(800)	6,491
Distribution to Unitholders	3	(1,671)	(1,996)
Unitholders' Funds at End of Period		42,455	44,186

STATEMENT OF FINANCIAL POSITION
as at 31 December 2005

	Note	Dec 2005 \$000	Dec 2004 \$000
ASSETS			
Cash at call		925	381
Accounts receivable		4	4
Tax receivable		15	5
Investments at market value	6	42,455	44,186
Total Assets		43,399	44,576
LIABILITIES AND UNITHOLDERS' FUNDS			
Accounts payable		248	-
Funds held for unit purchases		12	-
Distribution payable to Unitholders	3	684	390
Unitholders' Funds	4	42,455	44,186
Total Liabilities and Unitholders' Funds		43,399	44,576

The Board of Directors of Smartshares Limited and the Board of Directors of Trustees Executors Limited authorised these financial statements for issue on 17 February 2006.



D G Trow
Chairman
Smartshares Ltd



M R Weldon
Director
Smartshares Ltd



D Gupta
Director
Trustees Executors Ltd



J Bolger
Director
Trustees Executors Ltd

FINANCIAL STATEMENTS | CONTINUED

NZX MIDCAP INDEX FUND

STATEMENT OF CASH FLOWS for the year ended 31 December 2005

	Note	12 Months Dec 2005 \$000	9 Months Dec 2004 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Company dividends		1,789	1,533
Reinvestment funds		-	57
Cash inflows from operating activities		1,789	1,590
Cash was applied to:			
Payments to creditors		-	46
Tax paid directly by the Fund		128	85
Cash outflows from operating activities		128	131
Net cash flows from operating activities		1,661	1,459
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from:			
Capital receipts		1,871	95
Cash inflows from investing activities		1,871	95
Cash was applied to:			
Investment in securities		1,586	-
Accounts paid on behalf of fund manager		34	-
Cash outflows from investing activities		1,620	-
Net cash flows from investing activities		251	95
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from:			
Savings plan deposits		124	-
Cash inflows from financing activities		124	-
Cash was applied to:			
Units & securities purchased		115	-
Dividend reinvestment	3	279	275
Distributions directly to Unitholders	3	780	1,299
Management charge paid by Unitholders	3	318	421
Cash outflows from financing activities		1,492	1,995
Net cash flows from financing activities		(1,368)	(1,995)
Net increase/(decrease) in cash held		544	(441)
Opening cash balance		381	822
Cash at end of period		925	381
RECONCILIATION OF SURPLUS AFTER TAX WITH NET CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus for the period		1,671	1,418
Movement in tax receivable		(10)	(18)
Movement in accounts receivable		-	59
Net cash flows from operating activities		1,661	1,459

NOTES TO THE FINANCIAL STATEMENTS

NZX MIDCAP INDEX FUND

1. STATEMENT OF ACCOUNTING POLICIES

The financial statements presented are the financial statements of the NZX 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 NZX 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 2005 (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.

NOTES TO THE FINANCIAL STATEMENTS | CONTINUED

NZX MIDCAP INDEX FUND

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

The NZX MidCap Index Fund changed its balance date to 31 December in the last financial period. Accordingly, the comparatives are for the nine months ended 31 December 2004. There have been no other material changes to accounting policies during the period.

Comparatives

Comparative figures where necessary have been restated to correspond to the current year classifications.

Financial Instruments

Financial instruments carried on the statement of financial position include cash, accounts receivable, investments and payables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

2. TAXATION

	12 Months Dec 2005 \$000	9 Months Dec 2004 \$000
INCOME TAX EXPENSE		
Surplus before tax	1,789	1,413
Imputation credits	704	532
Taxable Income	2,493	1,945
Taxation at 33%	822	642
Less Imputation credits and FITC	(704)	(647)
Current taxation expense/(credit)	118	(5)
IMPUTATION CREDITS		
Imputation credits received during the period	704	532
Tax paid during the period	128	-
Imputation credits brought forward	(37)	318
	795	850
Credits attached to distributions paid	848	887
Credits to be attached to next distribution	(53)	(37)

3. DISTRIBUTION TO UNITHOLDERS

	Total Attributed to Unitholders Dec 2005 \$000	Payments to the Manager \$000	Payments to Unitholders \$000	Total Attributed to Unitholders Dec 2004 \$000
To be paid at beginning of period	390	-	390	872
Surplus for the period	1,671	318	1,353	1,418
Capital receipt from constituent company	-	-	-	95
	2,061	318	1,743	2,385
Cash paid to Unitholders/Manager	(1,377)	(318)	(1,059)	(1,995)
To be paid	684	-	684	390

4. UNITHOLDERS' FUNDS

As at 31 December 2005 there were 17,798,418 (Dec 2004: 18,169,198) units on issue. The net asset backing of each unit at 31 December 2005 was \$2.3854 (Dec 2004: \$2.4310).

5. RELATED PARTIES

The Fund is managed by Smartshares Limited, a wholly owned subsidiary of New Zealand Exchange Limited. Smartshares 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. At 31 December 2005 the Fund had a payable to Smartshares Limited of \$42,000 (Dec 2004: \$0).

NOTES TO THE FINANCIAL STATEMENTS | CONTINUED

NZX MIDCAP INDEX FUND

6. INVESTMENTS AS AT 31 DECEMBER 2005

Company	Number of Securities	Market Value \$
Air New Zealand Limited	831,107	1,063,817
AMP NZ Office Trust	1,189,106	1,153,433
Cavalier Corporation Limited	191,731	536,847
Calan Healthcare Properties Trust	418,591	493,937
Capital Properties New Zealand Limited	298,687	442,057
Freightways Limited	542,873	1,900,056
Hellaby Holdings Limited	145,097	681,956
Hallenstein Glasson Holdings Limited	194,655	924,611
Infratil Limited	942,869	3,535,759
ING Property Trust	1,389,903	1,695,682
Mainfreight Limited	336,412	1,227,904
Macquarie Goodman Property Trust	1,156,031	1,445,039
Michael Hill International Limited	63,519	500,530
Nuplex Industries Limited	329,627	1,516,284
New Zealand Oil and Gas Limited	839,033	755,130
Property For Industry Limited	885,470	1,044,855
PGG Wrightsons Limited	577,941	1,254,132
Port of Tauranga Limited	259,123	1,140,141
Pumpkin Patch Limited	457,037	1,540,215
Rubicon Limited	1,126,706	980,234
Ryman Healthcare Limited	364,658	1,896,222
Sanford Limited	253,137	1,088,489
Steel & Tube Holdings Limited	187,323	771,771
Tenon Limited	97,945	346,725
Tourism Holdings Limited	376,024	594,118
TrustPower Limited	168,967	1,039,147
Tower Limited	1,245,396	2,590,424
Vector Limited	2,077,006	5,441,756
Waste Management NZ Limited	431,281	2,643,753
Warehouse Group Limited	622,643	2,210,383
		\$42,455,407

The market value of securities held at 31 December 2004 was \$44,186,596. 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 can be made in the form of baskets of constituent securities of the NZX MidCap Index (i.e. not for cash) and therefore have not been included in the Statement of Cash Flows. Redemptions can also be made in the form of baskets and therefore 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 counterparties 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 counterparties dealt with. The Fund does not require collateral or other security to support financial instruments with credit risk. Maximum exposures to credit risk at balance date are:

	Dec 2005 \$000	Dec 2004 \$000
Cash	925	381
Accounts receivable	4	4
Investments	42,455	44,186

Fair Value

The carrying amount of financial instruments approximates 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 does not have any exposure to interest rate risk.

9. NEW ZEALAND INTERNATIONAL FINANCIAL REPORTING STANDARDS

In December 2002 the New Zealand Accounting Standards Review Board announced that the New Zealand equivalents to the International Financial Reporting Standards (IFRS) will apply to all New Zealand entities for the periods commencing on or after 1 January 2007 with the opportunity to early adopt by up to two years. Smartshares Limited, manager of the NZX MidCap Index Fund, intends to adopt NZIFRS for the Funds for the year ended 31 December 2007.

Smartshares Limited has a project to identify the differences between existing NZ GAAP and NZIFRS as they impact on the NZX MidCap Index Fund.

UNITHOLDER INFORMATION NZX MIDCAP INDEX FUND

DISTRIBUTION OF SECURITY HOLDERS AND SECURITY HOLDINGS as at 31 January 2006

	No. of Holders	% of Holders	No. of Securities	% of Securities
Up to 1,999	296	14.24%	280,378	1.59%
2,000 to 399,999	1,780	85.66%	16,129,606	91.63%
400,000 to 2,499,999	2	0.10%	1,194,350	6.78%
2,500,000 and over	-	-	-	-
Total	2,078	100%	17,604,334	100%

20 LARGEST REGISTERED HOLDERS OF QUOTED EQUITY SECURITIES as at 31 January 2006

Full Name	Total	Percentage
Investment Custodial Services Limited	776,176	4.41%
Custodial Services Limited	418,174	2.38%
Custodial Services Limited	359,933	2.05%
Westpac Nominees NZ Limited	348,528	1.98%
New Zealand Law Foundation	212,467	1.21%
First NZ Capital Custodians Limited	206,898	1.18%
Custodial Services Limited	195,152	1.11%
ABN AMRO Craigs Limited	177,367	1.01%
NZ Guardian Trust Company Limited	121,766	0.69%
Dennis G & Joan D Row & SW Trust Services Limited	118,769	0.68%
NZ Guardian Trust Company Limited	107,600	0.61%
Maori Investments Limited	65,015	0.37%
Martin Johnson	62,678	0.36%
Daisy J Burrell	57,478	0.33%
Gavin D Horne	55,925	0.32%
Kerry W & Beverly Peterson	55,925	0.32%
Katherine M Kelly & David A Smith	55,692	0.32%
David Anderson Smith & Graeme A Smith	55,692	0.32%
Joan Cann & Jeremy J Rickman	52,211	0.30%
Geoffrey W Smith	50,736	0.29%
	3,554,182	20.24%

Substantial Security Holders

As at 31 January 2006, 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 2005

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

Waivers Granted

New Zealand Exchange Limited and/or the Special Division that regulates Smartshares Limited have granted, either fully, partially or subject to conditions, the following waivers from the Listing Rules that were applicable at 31 December 2005:

Listing Rules: 1.9.1, 3.1.1(a), 3.1.1(b), 3.1.3, 3.3.1, 3.3.1(c) to 3.3.1C, 3.3.2 to 3.3.12, 3.4, 3.5, 3.6, Section 4, 7.1.11, 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, 11.2.3(a), and Appendix 2.

Auditors' Report

To the unitholders of NZX MIDCAP Index Fund

We have audited the financial statements on pages 26 to 33. The financial statements provide information about the past financial performance and cash flows of NZX MIDCAP Index Fund ("the Fund") for the period ended 31 December 2005 and its financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 29 and 30.

Manager's Responsibilities

The Funds Manager and Trustee is responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Fund as at 31 December 2005 and its financial performance and cash flows for the year 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 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 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 capacity 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 26 to 33:
 - (i) comply with generally accepted accounting practice in New Zealand; 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 2005 and its financial performance and cash flows for the year ended on that date.

Our audit was completed on 21 February 2006 and our unqualified opinion is expressed as at that date.



Chartered Accountants
Wellington



NZX 50 Portfolio Index Fund Financial Statements for the Year Ended 31 December 2005

STATEMENT OF FINANCIAL PERFORMANCE for the year ended 31 December 2005

	Note	12 Months Dec 2005 \$000	20 Days Dec 2004 \$000
Company dividends		1,129	8
Tax expense	2	(132)	-
Surplus for the Period		997	8

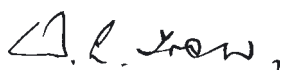
STATEMENT OF MOVEMENTS IN UNITHOLDERS' FUNDS for the year ended 31 December 2005

	Note	12 Months Dec 2005 \$000	20 Days Dec 2004 \$000
Unitholders' Funds at beginning of period		17,600	10,160
Surplus for the period		997	8
Net subscriptions received/(redeemed)	7	10,626	-
Increase/(decrease) in value of investments		1,099	297
Securities transferred from Forsyth Barr		-	7,143
Distribution to Unitholders	3	(997)	(8)
Unitholders' Funds at End of Period		29,325	17,600

STATEMENT OF FINANCIAL POSITION
as at 31 December 2005

	Note	Dec 2005 \$000	Dec 2004 \$000
ASSETS			
Cash at call		989	98
Accounts receivable		5	-
Investments at market value	6	29,325	17,600
Total Assets		30,319	17,698
LIABILITIES AND UNITHOLDERS' FUNDS			
Accounts payable		144	90
Funds held for unit purchases		236	-
Tax payable		132	-
Distribution payable to Unitholders	3	482	8
Unitholders' Funds	4	29,325	17,600
Total Liabilities and Unitholders' Funds		30,319	17,698

The Board of Directors of Smartshares Limited authorised these financial statements for issue on 17 February 2006.



D G Trow
Chairman
Smartshares Limited



M R Weldon
Director
Smartshares Limited

FINANCIAL STATEMENTS | CONTINUED

NZX 50 PORTFOLIO INDEX FUND

STATEMENT OF CASH FLOWS

for the year ended 31 December 2005

	Note	12 Months Dec 2005 \$000	20 Days Dec 2004 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Company dividends		1,124	8
Cash inflows from operating activities		1,124	8
Net cash flows from operating activities		1,124	8
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from:			
Capital receipts		727	-
Cash inflows from investing activities		727	-
Cash was applied to:			
Investment in securities		682	-
Cash outflows from investing activities		682	-
Net cash flows from investing activities		45	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from:			
Subscription to issue of shares		-	10,125
Forsyth Barr T40 Fund transfer		-	131
Savings plan and direct purchase deposits		5,670	-
Cash inflows from financing activities		5,670	10,256
Cash was applied to:			
Unit & securities purchased		5,425	10,166
Dividend reinvestment	3	342	-
Distributions directly to Unitholders	3	73	-
Management charge paid by Unitholders	3	108	-
Cash outflows from financing activities		5,948	10,166
Net cash flows from financing activities		(278)	90
Net increase in cash held		891	98
Opening cash balance		98	-
Cash at end of period		989	98
RECONCILIATION OF SURPLUS AFTER TAX WITH NET CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus for the period		997	8
Movement in tax payable		132	-
Movement in accounts receivable		(5)	-
Net cash flows from operating activities		1,124	8

NOTES TO THE FINANCIAL STATEMENTS

NZX 50 PORTFOLIO INDEX FUND

1. STATEMENT OF ACCOUNTING POLICIES

The financial statements presented are the financial statements of the NZX 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 NZX 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 2005 (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 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.

NOTES TO THE FINANCIAL STATEMENTS | CONTINUED

NZX 50 PORTFOLIO INDEX FUND

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.

Comparatives

Comparative figures where necessary have been restated to correspond to the current year classifications.

Financial Instruments

Financial instruments carried on the statement of financial position include cash, accounts receivable, investments and payables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

2. TAXATION

	12 Months Dec 2005 \$000	20 Days Dec 2004 \$000
INCOME TAX EXPENSE		
Surplus before tax	1,129	8
Imputation credits	341	4
Taxable Income	1,470	12
Taxation at 33%	485	4
Less imputation credits and FITC	(353)	(4)
Current taxation expense	132	-
IMPUTATION CREDITS		
Imputation credits received during the period	341	4
Imputation credits brought forward	4	-
	345	4
Credits attached to distributions paid	261	-
Credits to be attached to next distribution	84	4

3. DISTRIBUTION TO UNITHOLDERS

	Total Attributed to Unitholders Dec 2005 \$000	Payments to the Manager \$000	Payments to Unitholders \$000	Total Attributed to Unitholders Dec 2004 \$000
To be paid at beginning of period	8		8	
Surplus for the period	997	108	889	8
	1,005	108	897	8
Cash paid to Unitholders/Manager	(523)	(108)	(415)	-
To be paid	482	-	482	8

4. UNITHOLDERS' FUNDS

As at 31 December 2005 there were 19,356,940 (Dec 2004: 11,941,479) units on issue. The net asset backing of each unit at 31 December 2005 was \$1.5150 (Dec 2004: \$1.4738).

5. RELATED PARTIES

The Fund is managed by Smartshares Limited, a wholly owned subsidiary of New Zealand Exchange Limited. Smartshares 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. At 31 December 2005 the Fund had a payable to Smartshares Limited of \$86,000 (Dec 2004: \$90,000).

NOTES TO THE FINANCIAL STATEMENTS | CONTINUED

NZX 50 PORTFOLIO INDEX FUND

6. INVESTMENTS AS AT 31 DECEMBER 2005

Company	Number of Securities	Market Value \$
Auckland International Airport Limited	613,396	1,214,524
Air New Zealand Limited	198,174	253,663
AMP Limited	45,691	371,011
Australia and New Zealand Banking Group Limited	21,711	564,486
APN News & Media Limited	155,203	776,015
AMP NZ Office Trust	283,536	275,030
AXA Asia Pacific Holdings Limited	47,855	256,981
BIL International Limited	106,198	127,438
Carter Holt Harvey Limited	364,752	911,880
Cavalier Corporation Limited	45,716	128,005
Contact Energy Limited	214,379	1,421,333
Calan Healthcare Properties Trust	99,813	117,779
Capital Properties New Zealand Limited	71,222	105,409
Fletcher Building Limited	254,056	1,918,123
Fisher & Paykel Appliances Limited	270,551	938,812
Fisher & Paykel Healthcare Limited	450,311	1,711,182
Freightways Limited	129,444	453,054
Guinness Peat Group Plc	776,435	1,630,514
Hellaby Holdings Limited	34,597	162,606
Hallenstein Glasson Holdings Limited	46,415	220,471
Infratil Limited	224,822	843,083
ING Property Trust	331,416	404,328
Kiwi Income Property Trust	724,250	919,798
Lion Nathan Limited	28,967	230,288
Mainfreight Limited	80,216	292,788
Macquarie Goodman Property Trust	275,650	344,563
Michael Hill International Limited	15,145	119,343
Nuplex Industries Limited	78,597	361,546
New Zealand Oil & Gas Limited	200,066	180,059
Property For Industry Limited	211,134	249,138
PGG Wrightson Limited	137,807	299,042
Promina Group Limited	197,867	1,009,122
Port of Tauranga Limited	61,785	271,854
Pumpkin Patch Limited	108,978	367,256
Rubicon Limited	268,659	233,733

Company	Number of Securities	Market Value \$
Ryman Healthcare Limited	86,951	452,145
Sanford Limited	60,359	259,545
Sky City Entertainment Group Limited	210,405	986,799
Sky Network Television Limited	311,587	1,962,998
Steel & Tube Holdings Limited	44,666	184,024
Telecom Corporation of New Zealand Limited	187,878	1,129,147
Tenon Limited	23,354	82,673
Tourism Holdings Limited	89,662	141,666
Telstra Corporation Limited	28,165	119,138
TrustPower Limited	40,289	247,777
Tower Limited	296,956	617,668
Vector Limited	495,251	1,297,558
Waste Management NZ Limited	102,837	630,391
Westpac Banking Corporation	40,981	1,001,985
Warehouse Group Limited	148,466	527,054
		\$29,324,825

The market value of securities held at 31 December 2004 was \$17,600,022. 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 can be made in the form of baskets of constituent securities of the NZX 50 Portfolio Index (i.e. not for cash) and therefore have not been included in the Statement of Cash Flows. Redemptions can also be made in the form of baskets and therefore 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 counterparties 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 counterparties dealt with. The Fund does not require collateral or other security to support financial instruments with credit risk. Maximum exposures to credit risk at balance date are:

NOTES TO THE FINANCIAL STATEMENTS | CONTINUED

NZX 50 PORTFOLIO INDEX FUND

	Dec 2005 \$000	Dec 2004 \$000
Cash	989	98
Accounts receivable	5	-
Investments	29,325	17,600

Fair Value

The carrying amount of financial instruments approximates 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 does not have any exposure to interest rate risk.

9. NEW ZEALAND INTERNATIONAL FINANCIAL REPORTING STANDARDS

In December 2002 the New Zealand Accounting Standards Review Board announced that the New Zealand equivalents to the International Financial Reporting Standards (IFRS) will apply to all New Zealand entities for the periods commencing on or after 1 January 2007 with the opportunity to early adopt by up to two years. Smartshares Limited, manager of the NZX 50 Portfolio Index Fund, intends to adopt NZIFRS for the Fund for the year ended 31 December 2007.

Smartshares Limited has a project to identify the differences between existing NZ GAAP and NZIFRS as they impact on the NZX 50 Portfolio Index Fund.

UNITHOLDER INFORMATION NZX 50 PORTFOLIO INDEX FUND

DISTRIBUTION OF SECURITY HOLDERS AND SECURITY HOLDINGS as at 31 January 2006

	No. of Holders	% of Holders	No. of Securities	% of Securities
Up to 1,999	880	34.71%	1,201,834	6.11%
2,000 to 399,999	1,654	65.25%	13,484,458	68.59%
400,000 to 999,999	-	-	-	-
1,000,000 to 2,499,999	-	-	-	-
2,500,000 and over	1	0.04%	4,975,075	25.30%
Total	2,535	100%	19,661,367	100%

20 LARGEST REGISTERED HOLDERS OF QUOTED EQUITY SECURITIES as at 31 January 2006

Full Name	Total	Percentage
ANZ Nominees Limited	4,975,075	25.50%
First NZ Capital Custodians Limited	296,999	1.52%
National Nominees Limited	142,386	0.73%
First NZ Capital Securities Limited	106,370	0.55%
Public Trust	102,672	0.53%
Peter E Tyndel	82,745	0.42%
Tahi Ventures Limited	78,340	0.40%
Estate Frances Wilby Skeet	78,033	0.40%
Bryan W & Elizabeth J Leyland	74,963	0.38%
Trevor P Fitzjohn & John L Marshall	74,286	0.38%
Custodial Services Limited	70,332	0.36%
Stephan J & Marion J McKilliam & Garry W Davidson	65,427	0.34%
John D & Georgina T Rowell	60,161	0.31%
Maureen Warburton	59,199	0.30%
Eric Howarth Shortridge & Public Trust	58,694	0.30%
Romie Greville	53,137	0.27%
Richard F Fernyhough & Paul R Hocking & Diane L Miller	52,672	0.27%
Anne H Harvey Ward	50,275	0.26%
ANZ Nominees Limited	47,000	0.24%
K M B Poore	46,033	0.24%
	6,574,799	33.70%

UNITHOLDER INFORMATION | CONTINUED

NZX 50 PORTFOLIO INDEX FUND

Substantial Security Holders

As at 31 January 2006, 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 2005

	Beneficial	Non-Beneficial
Donald Trow	14,046	-
Mark Weldon	26,849	-
Geoffrey Brown	-	35,114

Waivers Granted

New Zealand Exchange Limited and/or the Special Division that regulates NZX have granted, either fully, partially or subject to conditions, the following waivers from the Listing Rules that were applicable at 31 December 2005:

Listing Rules: 3.1.1(a), 3.1.1(b), 3.1.3, 3.3.1(c) to 3.3.1C, 3.3.2 to 3.3.12, 3.4, 3.5, 3.6, Section 4, 7.1.7, 7.1.11, 7.3, 7.4, 7.5, 7.6.1 to 7.6.3, 7.11.1, 8.2.1 to 8.2.3, 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.

Auditors' Report

To the unitholders of NZX 50 Portfolio Index Fund

We have audited the financial statements on pages 38 to 46. The financial statements provide information about the past financial performance and cash flows of NZX 50 Portfolio Index Fund ("the Fund") for the period ended 31 December 2005 and its financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 41 and 42.

Manager's Responsibilities

The Funds Manager is responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Fund as at 31 December 2005 and its financial performance and cash flows for the period 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 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 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 capacity 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 38 to 46:
 - (i) comply with generally accepted accounting practice in New Zealand; and
 - (ii) are in accordance with the trust deed dated 15 October 2005; and
- (ii) give a true and fair view of the financial position of the Fund as at 31 December 2005 and its financial performance and cash flows for the year ended on that date.

Our audit was completed on 21 February 2006 and our unqualified opinion is expressed as at that date.



Chartered Accountants
Wellington

NZX Australian MidCap Index Fund Financial Statements for the Year Ended 31 December 2005

STATEMENT OF FINANCIAL PERFORMANCE for the year ended 31 December 2005

	Note	12 Months Dec 2005 \$000	3 Months Dec 2004 \$000
Company dividends		1,915	137
Tax expense	2	(574)	(45)
Surplus for the Period		1,341	92

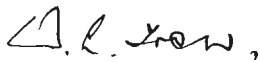
STATEMENT OF MOVEMENTS IN UNITHOLDERS' FUNDS for the year ended 31 December 2005

	Note	12 Months Dec 2005 \$000	3 Months Dec 2004 \$000
Unitholders' Funds at beginning of period		38,075	33,182
Surplus for the period		1,341	92
Net subscriptions received/(redeemed)	7	912	(1,747)
Increase/(decrease) in value of investments		6,399	6,640
Distribution to Unitholders	3	(1,341)	(92)
Unitholders' Funds at End of Period		45,386	38,075

STATEMENT OF FINANCIAL POSITION
as at 31 December 2005

	Note	Dec 2005 \$000	Dec 2004 \$000
ASSETS			
Cash at call		1,130	137
Accounts receivable		315	-
Investments at market value	6	45,386	38,075
Total Assets		46,831	38,212
LIABILITIES AND UNITHOLDERS' FUNDS			
Funds held for unit purchases		155	-
Tax payable		619	45
Distribution payable to Unitholders	3	671	92
Unitholders' Funds	4	45,386	38,075
Total Liabilities and Unitholders' Funds		46,831	38,212

The Board of Directors of Smartshares Limited authorised these financial statements for issue on 17 February 2006.



D G Trow
Chairman
Smartshares Limited



M R Weldon
Director
Smartshares Limited

FINANCIAL STATEMENTS | CONTINUED

NZX AUSTRALIAN MIDCAP INDEX FUND

STATEMENT OF CASH FLOWS

for the year ended 31 December 2005

	Note	12 Months Dec 2005 \$000	3 Months Dec 2004 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Company dividends		1,600	137
Cash inflows from operating activities		1,600	137
Net cash flows from operating activities		1,600	137
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from:			
Capital receipts		407	-
Cash inflows from investing activities		407	-
Cash was applied to:			
Investment in securities		376	-
Cash outflows from investing activities		376	-
Net cash flows from investing activities		31	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from:			
Subscription to issue of shares		-	33,182
Savings plan & direct purchase deposits		576	-
Cash inflows from financing activities		576	33,182
Cash was applied to:			
Units & securities purchased		452	33,182
Dividend reinvestment	3	290	-
Distribution directly to Unitholders	3	207	-
Management charge paid directly by Unitholders	3	265	-
Cash outflows from financing activities		1,214	33,182
Net cash flows from financing activities		(638)	-
Net increase in cash held		993	137
Opening cash balance		137	-
Cash at end of period		1,130	137
RECONCILIATION OF SURPLUS AFTER TAX WITH NET CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus for the period		1,341	92
Movement in tax payable		574	45
Movement in accounts receivable		(315)	-
Net cash flows from operating activities		1,600	137

NOTES TO THE FINANCIAL STATEMENTS

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 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. 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.

NOTES TO THE FINANCIAL STATEMENTS | CONTINUED

NZX AUSTRALIAN MIDCAP INDEX FUND

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.

Comparatives

Comparative figures where necessary have been restated to correspond to the current year classifications.

Financial Instruments

Financial instruments carried on the statement of financial position include cash, accounts receivable, investments and payables. The particular recognition methods are disclosed in the individual policy statements associated with each item.

2. TAXATION

	12 Months Dec 2005 \$000	3 Months Dec 2004 \$000
INCOME TAX EXPENSE		
Surplus before tax	1,915	137
Imputation credits	87	-
Taxable Income	2,002	137
Taxation at 33%	661	45
Less imputation credits and FITC	(87)	-
Current taxation expense	574	45
IMPUTATION CREDITS		
Imputation credits received during the period	87	-
	87	-
Credits attached to distributions paid	65	-
Credits to be attached to next distribution	22	-

3. DISTRIBUTION TO UNITHOLDERS

	Total Attributed to Unitholders Dec 2005 \$000	Payments to the Manager \$000	Payments to Unitholders \$000	Total tttributed to Unitholders Dec 2004 \$000
To be paid at beginning of the period	92	-	92	-
Surplus for the period	1,341	265	1,076	92
	1,433	265	1,168	92
Cash paid to Unitholders/Manager	(762)	(265)	(497)	-
To be paid	671	-	671	92

4. UNITHOLDERS' FUNDS

As at 31 December 2005 there were 8,756,347 (Dec 2004: 8,571,445) units on issue. The net asset backing of each unit at 31 December 2005 was \$5.1832 (Dec 2004: \$4.4421).

5. RELATED PARTIES

The Fund is managed by Smartshares Limited, a wholly owned subsidiary of New Zealand Exchange Limited. Smartshares 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.

NOTES TO THE FINANCIAL STATEMENTS | CONTINUED

NZX AUSTRALIAN MIDCAP INDEX FUND

6. INVESTMENTS AS AT 31 DECEMBER 2005

Company	Number of Securities	Market Value A\$
Alinta Limited	93,407	1,041,488
Ansell Limited	49,829	550,610
APN News & Media Limited	102,604	492,499
Australian Stock Exchange	36,471	1,185,308
AWB Limited	122,962	756,216
Billabong International	48,141	699,007
Babcock & Brown Limited	43,169	740,348
Challenger Financial	146,423	593,013
Cochlear Limited	18,873	863,062
Commonwealth Property Office Fund	498,193	623,721
Computershare Limited	158,255	1,074,551
CRS Limited	336,323	1,170,404
Caltex Australia Limited	48,531	940,531
Downer Edi Limited	98,195	705,040
DB RREEF Trust	994,279	1,382,048
DCA Group Limited	170,144	677,173
Futuris Corporation	223,672	433,924
CFS Gandel Retail Trust	463,507	927,014
Harvey Norman Holdings	212,564	620,687
ING Industrial Fund	270,932	604,178
Iluka Resources Limited	83,690	656,130
ING Office Fund	368,616	488,416
Investa Property Group	548,420	1,088,614
Leighton Holdings Limited	49,829	890,943
Lihir Gold Limited	433,330	944,659
Lion Nathan Limited	103,773	792,826
Macquarie Communications	112,743	640,380
Macquarie Countrywide	377,727	747,899
Macquarie Office Trust	684,056	906,374
Metcash Limited	271,839	1,223,276
Multiplex Group	218,763	689,103
Mayne Pharma Limited	233,482	593,044
Oil Search Limited	329,677	1,216,508
Onesteel Limited	199,707	669,018
Oxiana Limited	492,267	856,545
Pacific Brands Limited	108,825	480,995

Company	Number of Securities	Market Value A\$
Perpetual Trustees Australia Limited	14,480	984,640
Paperlinx Limited	160,060	614,630
Patrick Corporation	226,370	1,675,138
ResMed Inc.	250,005	1,312,526
Sims Group Limited	32,420	569,295
Sonic Healthcare Limited	96,112	1,422,458
Sigma Company Limited	219,822	685,845
Symbion Health Limit	233,482	824,191
Ten Network Holdings	139,900	432,604
Toll Holdings Limited	94,099	1,402,075
Tattersalls Limited	254,078	810,509
UniTAB Limited	43,730	594,291
West Australian News	73,909	610,488
Zinifex Limited	179,746	1,236,652
		A\$ 42,140,894

The New Zealand dollar equivalent of A\$42,140,894 is NZ\$45,385,992 (Dec 2004: NZ\$38,075,216), the exchange rate used was \$0.9285 (Dec 2004: \$0.9178). 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 can be 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 can also be made in the form of baskets and therefore 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 counterparties 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 counterparties dealt with. The Fund does not require collateral or other security to support financial instruments with credit risk. Maximum exposures to credit risk at balance date are:

NOTES TO THE FINANCIAL STATEMENTS | CONTINUED

NZX AUSTRALIAN MIDCAP INDEX FUND

	Dec 2005 \$000	Dec 2004 \$000
Cash	1,130	137
Accounts receivable	315	-
Investments	45,386	38,075

Fair Value

The carrying amount of financial instruments approximates 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 does not have any exposure to interest rate risk.

9. NEW ZEALAND INTERNATIONAL FINANCIAL REPORTING STANDARDS

In December 2002 the New Zealand Accounting Standards Review Board announced that the New Zealand equivalents to the International Financial Reporting Standards (IFRS) will apply to all New Zealand entities for the periods commencing on or after 1 January 2007 with the opportunity to early adopt by up to two years. Smartshares Limited, manager of the NZX Australian MidCap Index Fund, intends to adopt NZIFRS for the Fund for the year ended 31 December 2007.

Smartshares Limited has a project to identify the differences between existing NZ GAAP and NZIFRS as they impact on the NZX Australian MidCap Index Fund.

UNITHOLDER INFORMATION NZX AUSTRALIAN MIDCAP INDEX FUND

DISTRIBUTION OF SECURITY HOLDERS AND SECURITY HOLDINGS as at 31 January 2006

	No. of Holders	% of Holders	No. of Securities	% of Securities
Up to 1,999	1,238	52.82%	1,287,771	14.66%
2,000 to 399,999	1,105	47.14%	6,969,612	79.32%
400,000 to 999,999	1	0.04%	528,618	6.02%
1,000,000 to 2,499,999	-	-	-	-
2,500,000 and over	-	-	-	-
Total	2,344	100%	8,786,001	100%

20 LARGEST REGISTERED HOLDERS OF QUOTED EQUITY SECURITIES as at 31 January 2006

Full Name	Total	Percentage
Custodial Services Limited	528,618	6.02%
First NZ Capital Custodians Limited	252,663	2.89%
Custodial Services Limited	230,673	2.63%
Forbar Custodians Limited	215,395	2.45%
Forbar Custodians Limited	200,066	2.28%
Custodial Services Limited	154,106	1.75%
Investment Custodial Services Limited	62,754	0.71%
Custodial Services Limited	58,059	0.66%
Forbar Custodians Limited	55,787	0.64%
Flora Fitzherbert Rudman	52,626	0.60%
Custodial Services Limited	43,238	0.49%
Elwyn Dianne Mayall	41,277	0.47%
NZ Guardian Trust Company Limited	38,415	0.44%
Forsyth Barr Limited	36,389	0.41%
Gavin R & Susan E Walker & William M Paterson	34,397	0.39%
Gavin R & Susan E Walker & William M Paterson	34,397	0.39%
IFR Nominees Limited	30,000	0.34%
ABN AMRO Craigs Limited	28,402	0.32%
Andrew A & Catherine O Knowles	27,525	0.31%
Martyn B Hamilton Reesby & Greg Hinton	27,522	0.31%
	2,152,309	24.50%

UNITHOLDER INFORMATION | CONTINUED

NZX AUSTRALIAN MIDCAP INDEX FUND

Substantial Security Holders

As at 31 January 2006, 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 2005

	Beneficial	Non-Beneficial
Donald Trow	5,504	-
Mark Weldon	5,184	-
Geoffrey Brown	2,719	-

Waivers Granted

New Zealand Exchange Limited and/or the Special Division that regulates NZX have granted, either fully, partially or subject to conditions, the following waivers from the Listing Rules that were applicable at 31 December 2005:

Listing Rules: 3.1.1(a), 3.1.1(b), 3.1.3, 3.3.1(c) to 3.3.1C, 3.3.2 to 3.3.12, 3.4, 3.5, 3.6, Section 4, 7.1.7, 7.1.11, 7.3, 7.4, 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(a), 10.4.2, 10.5.1(b), 10.8.1(a), 11.1.1, and Appendix 2.

Auditors' Report

To the unitholders of NZX Australian MIDCAP Index Fund

We have audited the financial statements on pages 50 to 58. 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 2005 and its financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 53 and 54.

Manager's Responsibilities

The Fund's Manager is responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Fund as at 31 December 2005 and its financial performance and cash flows for the period 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 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 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 capacity 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 50 to 58:
 - (i) comply with generally accepted accounting practice in New Zealand; and
 - (ii) are in accordance with the trust deed dated 10 August 2005
- (iii) give a true and fair view of the financial position of the Fund as at 31 December 2005 and its financial performance and cash flows for the period ended on that date.

Our audit was completed on 21 February 2006 and our unqualified opinion is expressed as at that date.





CORPORATE GOVERNANCE

The Issuer of the Funds is the Manager, Smartshares 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 practice of Smartshares Limited 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 two executive directors (Mark Weldon and Geoffrey Brown). Both of the executive directors are employees of New Zealand Exchange Limited (NZX). Services are provided to Smartshares Limited 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 Smartshares Limited and chief executive of NZX, Mr Weldon.

COMMITTEES

The Board of the manager has one committee, an Audit Committee, comprising Mr Trow, Mr Brown and Mr Neil Paviour-Smith, a director of NZX. The Audit Committee meets as required.

Smartshares Limited has been granted a waiver from Listing Rule 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 Smartshares Limited'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 Smartshares Limited's directors sits on Smartshares Limited's Audit Committee for the Funds, whenever it convenes;
- Smartshares Limited's Audit Committee for each Fund has a majority of directors who are independent directors of Smartshares Limited, or independent directors of NZX, or both;
- Every independent director of NZX who sits on Smartshares Limited'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;

CORPORATE GOVERNANCE | CONTINUED

- The Audit Committee for each Fund has full powers to require Smartshares Limited 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 Smartshares Limited 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.

Smartshares Limited has no remuneration or nomination committee. There is no nomination committee because the manager is a wholly-owned subsidiary of NZX which appoints the board of directors of the manager. There is also no remuneration committee as up until recently the manager had no employees. Furthermore, the Chairman receives director's fees from Smartshares Limited but otherwise no director receives any remuneration directly from Smartshares Limited. The manager is entitled to remuneration in respect of management of the Funds. Information about the remuneration received by the manager during 2005 can be found in the financial statements for the Funds set out in this report.

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







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