

Chairman's Report

PERFORMANCE IN YEAR ENDED 31 MARCH 2011

Having performed so well in the previous year both the New Zealand and Australian equity markets came off their highs quite sharply in April 2010 before slowly starting to trend back up from July onwards. Whilst March 2011 saw each index finish close to, or above, the level reached in March / April 2010 it was a long journey to get back.

This provided the year to 31 March 2011 with solid returns across both markets.

	Average Annual Total Returns*		Gross Dividend Yield
	Year to 31 Mar 2011	Inception to 31 Mar 2011	Year to 31 March 2011
smartTENZ	7.71%	3.11%	4.92%
smartMIDZ	4.54%	5.50%	5.63%
smartFONZ	4.75%	2.00%	4.15%
smartOZZY	3.75%	9.64%	2.71%
smartMOZY	8.14%	9.76%	3.23%

* Gross returns include dividends

The New Zealand equity market continued to provide a strong income return on investment as can be seen from the high relative dividend yield. It is pleasing to see investors' ongoing income return from the New Zealand based Funds continued to outstrip both inflation (the weighted mean year on year inflation rate was 3.3%) and the 2.5% available at the Official Cash Rate (OCR) as at 31 March 2011.

The high relative dividend yield of New Zealand stocks has long made investing in the domestic market an attractive proposition for long term investors and that attractiveness goes some way to explaining the strong interest seen in both smartTENZ and smartFONZ over the last year. Both Funds have seen significant increase in their funds under management with smartTENZ growing by 22% and smartFONZ by 18%.

More details on the size and performance of each Fund can be found in each Fund's performance metrics page.

IMPROVED TRANSPARENCY

It has been an important year for Smartshares as we have delivered a series of previously announced improvements to the Funds' operational processes to enhance the quality of service you receive from us including:

- ▶ Changes in the management fee structure, which resulted in a decrease in management fees for investors who were in the highest fee brackets and no increase in fees for other investors;
- ▶ Simplification of the way Funds distribute income to investors; and
- ▶ Change in the method of calculation of Net Asset Value to reflect the fact that income is held within the Fund before being paid out to those holding the units on record date.

In aggregate, these changes will make the distribution process more transparent with a single dividend rate applied for all investors within a Fund as opposed to rates being calculated at an individual investor level as previously was the case.

SECURITIES LENDING

In September 2010 Smartshares launched a securities lending programme for smartTENZ, smartMIDZ and smartFONZ. The securities lending programme provides investors with additional income thereby increasing distribution payouts, without materially increasing the risk profile of the Funds. Whilst the income received and paid out to investors might be modest initially, we expect that to grow over time. At this stage we are not in a position to facilitate a lending scheme on smartOZZY and smartMOZY.

Fund	Launch	Fees Received to 31 Mar 2011
smartFONZ	Sept, 6 2010	\$15,031
smartTENZ	Sept, 6 2010	\$20,324
smartMIDZ	Nov 10, 2010	\$2,086

A critical prerequisite to launching the securities lending programme was a robust risk control framework that clearly defines how the assets can be lent and, very importantly, to whom. Smartshares worked closely with the Trustees of the Funds to develop the risk control framework.

It is important to note that Smartshares can only lend where loans will be settled through a central clearing house. Central clearing houses are important risk reduction mechanisms in global securities markets. Central clearing houses effectively act as the seller to all buyers of securities and the buyer from all sellers, thereby reducing the risk to Smartshares of one or more participants failing to honor their securities lending settlement obligations.

The central clearing house that settles lending of Smartshares assets is operated by New Zealand Clearing and Depository Corporation (NZCDC). NZCDC was launched last year to settle trades that takes place on NZX's securities and derivatives markets. It applies technology and processes that reflect international best practice and reduce systemic risk in New Zealand capital markets.

The NZCDC settlement system is a designated settlement system under the Reserve Bank of New Zealand Act 1989 and is regulated by both the Reserve Bank of New Zealand and the Financial Markets Authority. To ensure that it is in a position to meet settlement obligations NZCDC holds at least \$10m in risk capital. It also has a 'Memorandum of Understanding' with The Reserve Bank

of New Zealand through which it is eligible for additional liquidity support should it be so required.

Whilst NZCDC is a wholly owned subsidiary of NZX, it has an Independent Board. Smartshares carries out regular reviews of the securities lending programme, including its relationship with NZCDC and the risk mitigation processes in place, and is comfortable that the risk profile of the Funds has not changed materially for investors.

Those who wish to borrow securities through NZCDC's services must be accredited Participants as defined in the rules and must meet minimum financial resource and operational capability requirements. Those participants must also provide NZCDC with collateral valued at 105% of the value of the loan whenever they borrow securities. NZCDC does not provide the collateral to the Funds but instead takes the responsibility for ensuring that the Smartshares Funds receive back the securities lent.

I encourage you to contact the Smartshares team if you have any questions on any of the points raised above and I look forward to future communications with you as a valued Smartshares investor.



FIONA MACKENZIE CHAIRMAN
SMARTSHARES LIMITED

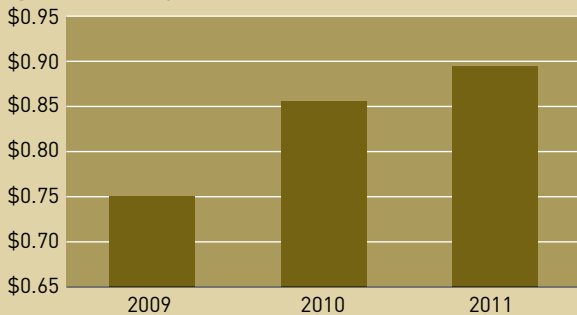
NZX 10 Fund (smartTENZ)

Performance for the Financial Year ended 31 March 2011

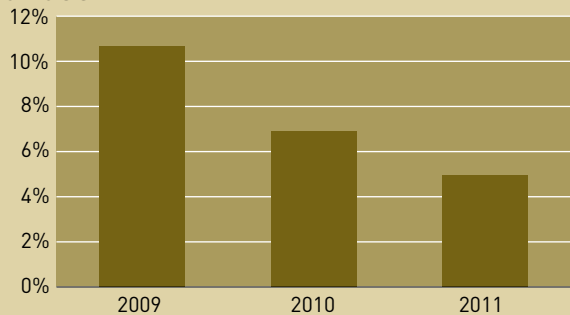
HIGHLIGHTS

	March 2011	March 2010
NTA	\$0.887	\$0.863
Price	\$0.894	\$0.855
Price (Discount)/Premium to NTA	\$0.007	\$(0.008)
Full Year Dividend*	\$0.044	\$0.060
Gross Dividend Yield*	4.92%	6.91%
Gross Return*		
- 1 yr	7.71%	46.63%
- Annualised since Inception	3.11%	2.79%
Funds Under Management	\$68,749,721	\$56,394,366

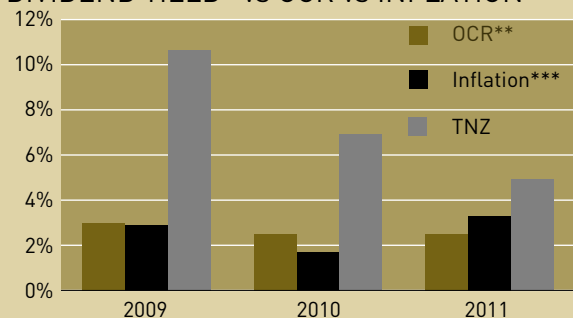
SHARE PRICE



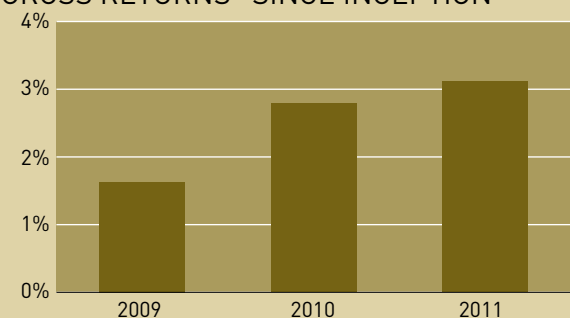
GROSS DIVIDEND YIELD*



DIVIDEND YIELD* vs OCR vs INFLATION



GROSS RETURNS* SINCE INCEPTION



* Change in fund structure from 01 April 2010 means that 2011 figures are shown net of management fees whilst all prior years are gross of management fees

** Official Cash Rate sourced from RBNZ

*** Inflation data sourced from the RBNZ (Weighted Median Y/Y%)



NZX 10 Fund

Report to Unitholders



FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011
Presented by Smartshares Limited, Manager of the NZX 10 Fund

Financial Statements

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2011

	Note	2011 \$000	2010 \$000
INCOME			
Dividends		2,805	3,098
Other income		11	-
Net changes in fair value of financial assets		1,833	7,617
Total Net Income		4,649	10,715
EXPENSES			
Management fees	7	343	254
Total Expenses		343	254
Net Profit/(Loss) before Tax		4,306	10,461
Tax expense	4	140	410
Net Profit/(Loss) after Tax		4,166	10,051

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS FOR THE YEAR ENDED 31 MARCH 2011

	Note	2011 \$000	2010 \$000
Opening net assets attributable to Unitholders		56,692	54,033
Net profit/(loss) after tax		4,166	10,051
Net subscriptions (redeemed)/allotted	5	9,649	(4,958)
Distribution to Unitholders	6	(2,277)	(2,434)
Closing Net Assets Attributable to Unitholders		68,230	56,692

These financial statements should be read in conjunction with the notes on pages 9-16

BALANCE SHEET
AS AT 31 MARCH 2011

	Note	2011 \$000	2010 \$000
CURRENT ASSETS			
Cash at call		1,291	660
Taxation receivable		16	-
Accounts receivable		487	431
Total Current Assets		1,794	1,091
NON-CURRENT ASSETS			
Investments in equity securities held at fair value	8	68,013	56,692
Total Non-Current Assets		68,013	56,692
Total Assets		69,807	57,783
CURRENT LIABILITIES			
Taxation payable		-	159
Management fees payable	7	32	22
Funds held for unit purchases		11	12
Distribution payable to Unitholders	6	1,534	898
Total Liabilities		1,577	1,091
Net Assets attributable to Unitholders		68,230	56,692

These financial statements should be read in conjunction with the notes on pages 9-16

The Board of Directors of Smartshares Limited authorised these financial statements for issue on 27 May 2011.



F MACKENZIE CHAIRMAN
SMARTSHARES LIMITED



R MACRAE DIRECTOR
SMARTSHARES LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2011

	Note	2011 \$000	2010 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Dividends received		2,750	3,018
Other income received	7	9	-
Cash inflows from operating activities		2,759	3,018
CASH WAS APPLIED TO:			
Management fees paid		(331)	(271)
Taxation (paid)/received directly by the Fund		(329)	(345)
Cash outflows from operating activities		(660)	(616)
Net Cash Flows from Operating Activities		2,099	2,402
CASH FLOWS FROM INVESTING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Net repayments to Fund Manager		3	-
Cash inflows/(outflows) from investing activities		3	-
Net Cash Flows from Investing Activities		3	-
CASH FLOWS FROM FINANCING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Savings plan & direct purchase deposits		267	405
Cash inflows from financing activities		267	405
CASH WAS APPLIED TO:			
Purchase of financial assets		(107)	(412)
Distributions paid to Unitholders		(1,099)	(1,591)
Distributions paid for dividend reinvestment		(532)	(624)
Cash outflows from financing activities		(1,738)	(2,627)
Net Cash Flows from Financing Activities		(1,471)	(2,222)
Net Increase in cash held		631	180
Opening cash balance		660	480
Cash at End of Period		1,291	660
RECONCILIATION OF NET PROFIT/(LOSS) AFTER TAX WITH NET CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit/(loss) after tax		4,166	10,051
LESS NON-CASH ITEMS:			
Net changes in fair value of financial assets		(1,833)	(7,617)
Operating movement in taxation payable/receivable		(175)	65
Movement in management fees payable		(9)	(17)
Movement in accounts receivable		(50)	(80)
Net Cash Flows from Operating Activities		2,099	2,402

These financial statements should be read in conjunction with the notes on pages 9-16

Notes to the Financial Statements

1. GENERAL INFORMATION

The NZX 10 Fund (the 'Fund') is a for-profit open-ended Group Investment Fund established in New Zealand 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 (the 'Act') and these financial statements are presented in compliance with the Act. The Fund holds a portfolio of marketable securities for the long term as an investment vehicle for individual Unitholders. Distributions are made up of dividends received from the investments, security lending income received less expenses paid. All changes in the value of investments, both realised and unrealised are recorded in the Statement of Comprehensive Income.

The Fund's investment activities are managed by Smartshares Limited (the 'Investment Manager') tracking the NZX 10 Index (the 'Index'). As prescribed by the Trust Deed, the Fund only invests in the securities included in the Index in proportion to the market capitalisation of the Index and the available capital of the Fund. The Fund's units are listed and traded on the NZX Main Board. Investments in equity securities are valued at fair value according to last bid prices on the NZX Main Board on 31 March 2011 (see Note 8).

2. STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 BASIS OF PREPARATION

The financial statements of the Fund have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'), being the New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS'). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss. The functional currency of this entity is the same as the presentation currency of these financial statements being the New Zealand Dollar ('NZD'), rounded to the nearest thousand.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Smartshares Board of Directors to exercise its judgement in the process of applying the Fund's accounting policies.

2.2 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(a) Classification

The Fund classifies its investments in equity securities held at fair value as financial assets at fair value through profit or loss. These financial assets are designated by the Smartshares Board of Directors at inception as their performance is managed and evaluated on a fair value basis in accordance with a documented investment strategy.

(b) Recognition/derecognition

Regular purchases and sales of investments are recognised on the trade date – the date on which the Fund commits to purchase or sell the investment. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

(c) Measurement

Financial assets at fair value through profit or loss are recognised at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the profit or loss in the Statement of Comprehensive Income when they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the profit or loss in the Statement of Comprehensive Income within dividend income when the Fund's right to receive payment is established.

(d) Fair value estimation

The fair value of the financial instruments is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Fund is the last bid price.

Notes to the Financial Statements

Continued

2.3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are 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 the Unitholders.

2.4 UNITS

The Fund issues units, which provide the holder with a residual interest in the Fund. The unit is carried at the proportion of the Fund's net asset value at the balance sheet date. The units can be put back to the Fund at any time, in accordance with the redemption rules as defined in the prospectus, for securities of the constituent companies in proportion to the Index and of a proportion of cash held in the Fund.

The units are issued and redeemed at the Unitholder's option at prices based on the Fund's net asset value per unit at the time of issue or redemption. The Fund's net asset value per unit is calculated by dividing the net assets attributable to the Unitholders of units by the total number of outstanding units. In accordance with the provisions of the Trust Deed investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit for subscriptions and redemptions.

Unitholders' funds are classified as equity instruments.

2.5 DIVIDEND INCOME

Dividend income is recognised when the right to receive payment is established.

2.6 DISTRIBUTIONS PAYABLE TO HOLDERS OF UNITS

Income from investments held is attributed to Unitholders on the basis of the number of units held at the entitlement date of the Unitholder distribution. Proposed distributions to Unitholders are recognised when they become payable as outlined in the Trust Deed.

Distributions are made on 20 April (record date 31 March) and 20 October (record date 30 September).

2.7 TAXATION

The Fund is domiciled in New Zealand and is registered as a Portfolio Investment Entity ('PIE').

The Fund is liable for tax at the prevailing company tax rate on taxable dividends (excluding dividends from entities subject to the Fair Dividend Rate method ('FDR')) from the entities listed in Note 8, after the deduction of management fees. 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. For securities subject to FDR, the Fund is liable for tax based on the market value of the security. All distributions to Unitholders are imputed to the extent permitted by the imputation credits that the directors of the entity determine are available.

2.8 CHANGES IN ACCOUNTING POLICIES

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

2.9 CHANGES IN THE FUND OPERATIONAL STRUCTURE

Discontinuation of Unitholder Distribution Account

The Manager has discontinued the use of Unitholder Distribution Accounts ('UDAs'). From 1 April 2010, income and expenses of the Fund are retained in the Fund itself and are subsequently reflected in the unit price.

The Fund will continue to make six-monthly distributions to Unitholders, with each Unitholder's entitlement based on their holding as at the record date for that distribution.

Unless a Unitholder elects to receive their share of a distribution in cash, their portion is automatically reinvested and the Unitholder is issued with additional units to the same value, rounded down to the nearest whole unit.

Calculation of the Net Asset Value (NAV)

Discontinuation of the use of UDAs has allowed the Fund to move to an "accrual-based" model for calculating the Fund's NAV, which is the basis for its unit pricing. The move to an accrual-based model means that the NAV per unit now includes both the value of the underlying securities held in the Fund, and the Fund's other assets and liabilities, including but not limited to: accrued dividends, accrued management fees and tax.

Distributions

From 1 April 2010, Unitholder's distribution entitlements are determined based on whether the Unitholder holds units at the record date set for the Fund's six-monthly distribution. Distribution rates per unit are the same for all investors within the Fund.

The Manager may, at its discretion, deduct from any distribution an amount of cash if the Manager reasonably considers that such a deduction is required to meet any liabilities that become payable in a future distribution period.

Change to Distribution Cycle

The Fund distribution dates have changed to align with the standard distribution cycles of New Zealand funds. From 1 April 2010 distributions will be made directly from the Fund within 20 business days after the last business day of March and September.

Management Fees Calculation

From 1 April 2010 the Manager ceased charging management fees to UDAs, with the fees now charged to the Fund directly. Accordingly, management fees are reflected in the unit price. No investor is charged management fees at a higher rate under the new structure. The management fee is calculated daily as a percentage of the NAV of the Fund.

From 1 April 2010 the management fees in the Financial Statements have been recorded at a gross level and do not include rebates provided to large Unitholders by the Manager.

Securities Lending

The Manager has implemented a securities lending programme for the Fund. Securities lending involves the transfer of legal title and beneficial interest in the securities to a third party borrower. The Fund receives income earned from securities lending following payment of the Manager's costs of administration.

Under the securities lending programme, the Fund receives a cash payment for any dividends (including any applicable tax credits) paid in respect of any loaned securities on the record date of the dividend, so that the Fund will receive the same return from the securities that it would have were it to have held them directly.

Risks associated with securities lending are detailed in the Financial Risk Management section 3.4 of these notes.

Notes to the Financial Statements

Continued

3. FINANCIAL RISK MANAGEMENT

The Fund's activities expose it to a variety of financial risks: market risk, credit risk, liquidity risk and security lending risk. The Fund does not have exposure to currency risk or interest rate risk.

3.1 MARKET PRICE RISK

The Fund's equity securities are susceptible to market price risk arising from uncertainties about future prices of the financial instruments. The market exposures are outlined in Note 8. The Fund's market risk is affected by actual changes in market prices. As this Fund tracks an index, any change in the underlying index will result in a corresponding change in the assets at fair value through profit or loss. In accordance with the terms of the Trust Deed the Fund Manager does not manage this risk.

3.2 CREDIT RISK

The Fund is exposed to 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 subject the Fund to credit risk consist primarily of cash, accounts receivable and investments in equity securities at fair value. The maximum credit risk of financial instruments is considered to be fair 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:

	Mar 2011 \$000	Mar 2010 \$000
Cash	1,291	660
Accounts receivable	487	431
Investments in equity securities at fair value	68,013	56,692

3.3 LIQUIDITY RISK

The Fund's listed securities are considered readily realisable, as they are listed on the NZX Main Board.

3.4 SECURITIES LENDING RISK

The potential risks associated with securities lending include, but are not limited to, the following:

- ▶ Borrower credit risk and settlement risk
- ▶ Failure of the central counterparty settlement system
- ▶ Operational & legal risk

In order to limit the Fund's exposure to risk that may arise as a result of securities lending the Fund has a limitation of 50% of the value of its securities it may lend at any point in time.

At 31 March 2011, the single borrower of the Fund's securities is New Zealand Clearing Limited, a wholly owned subsidiary of NZX Limited. Securities lent are backed against the collateral of the borrower. At 31 March 2011 the amount of securities the Fund had on loan to the Clearing House was \$1,132,100.

4. TAXATION

	Year Ended Mar 2011 \$000	Year Ended Mar 2010 \$000
INCOME TAX EXPENSE		
Net profit/(loss) before tax	4,306	10,461
Add back management fees	-	254
Add back decrease/(increase) in net changes in fair value of financial assets	(1,833)	(7,617)
Non-taxable income	(101)	(272)
Fully imputed accrued dividends movement	(55)	(86)
Gross up of imputation credits	789	608
Taxable income	3,106	3,348
Taxation at 30%	932	1,004
Less imputation credits and foreign income tax credits	(791)	(602)
Prior period adjustment	(1)	8
Tax expense	140	410
IMPUTATION CREDITS		
Opening balance	538	610
Imputation credits received during the period	789	608
Net tax paid/(refunded) during the period	316	345
	1,643	1,563
Credits attached to distributions paid	(694)	(1,025)
Closing Balance	949	538

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by New Zealand corporate entities on taxable profits under New Zealand tax law. There has been a change in the corporate tax rate from 30% to 28% from 1 April 2011.

Notes to the Financial Statements

Continued

5. UNITS

All issued units are fully paid and redeemable, and have been admitted to the official listing of the NZX Main Board. The Fund's net assets attributable to Unitholders are represented by these units. The Fund has no restrictions or specific requirements on the subscriptions and redemptions of units, other than minimum holding requirements as defined in the prospectus. The relevant movements are shown on the Statement of Changes in Net Assets Attributable to Unitholders.

6. DISTRIBUTION TO UNITHOLDERS

	Total attributed to Unitholders Mar 2011 \$000	Total attributed to Unitholders Mar 2010 \$000
Opening Distribution payable	898	679
Distribution accrued to Unitholders	2,277	2,434
	3,175	3,113
Distributed to Unitholders	(1,641)	(2,215)
Closing Distribution payable	1,534	898

7. RELATED PARTIES

The Fund is managed by Smartshares Limited (the 'Manager'), a wholly owned subsidiary of NZX Limited. Smartshares Limited receives management fees directly from the Fund. Under the Trust Deed the Manager pays the Trustee, Custodian, Registrar and Auditor in respect of the Fund and receives all basket application and withdrawal fees and interest earned on cash at call. Total gross management fees excluding rebates for the year amounted to \$343,000 (year ending 31 March 2010 \$254,000, rebates not applicable), with \$32,000 (Mar 2010: \$22,000) outstanding accrued fees due to Smartshares Limited at the end of the period. At 31 March 2011 the Fund has payables to Smartshares Limited of \$nil (Mar 2010: \$nil).

The Fund has entered into a securities lending agreement with New Zealand Clearing Limited, a wholly owned subsidiary of NZX Limited. Securities lent are backed against the collateral of the borrower. As at 31 March 2011 the amount of securities the Fund had on loan to the Clearing House was \$1,132,100. Total security lending fees for the period ended 31 March 2011 of \$11,000 (March 2010: \$nil), with accrued fees due to the Fund of \$1,000 (March 2010: \$nil).

The audit fee paid by the Manager for the audit of the Fund for the year to 31 March 2011 was \$3,000 (2010: \$4,000).

8. INVESTMENTS IN EQUITY SECURITIES HELD AT FAIR VALUE AS AT 31 MARCH 2011

Company	Number of securities	Fair Value (\$)
Auckland International Airport Limited	3,583,976	7,938,507
Contact Energy Limited	1,677,971	9,681,893
Fletcher Building Limited	1,662,146	15,524,444
Fisher & Paykel Healthcare Limited	1,415,189	4,387,086
Infratil Limited	1,639,185	3,114,452
Kiwi Income Property Trust	2,644,699	2,644,699
Ryman Healthcare Limited	1,359,628	3,222,318
SKYCITY Entertainment Group Limited	1,563,884	5,285,928
Sky Network Television Limited	1,021,525	5,720,540
Telecom Corporation of New Zealand Limited	5,233,550	10,493,268
		68,013,134

All financial assets are designated at inception as being at fair value through the profit or loss. The fair value of financial assets is calculated using the last bid price on the relevant trading day. The fair value of financial assets held at 31 March 2011 was \$68,013,134 (Mar 2010: \$56,691,720). The investments are registered in the name of JB Were (NZ) Nominees Limited, the Custodian of the Fund.

9. UNITHOLDERS' FUNDS

As at 31 March 2011 there were 76,901,254 (Mar 2010: 65,958,323) units on issue. Due to the requirements of NZ IFRS and IFRS, there are differences between the valuation of investments for the purposes of determining the net asset value and for the purposes of determining the value of financial assets in the financial statements.

For the purposes of determining the net asset value, quoted investment positions are valued at last traded market prices on the relevant trading day in accordance with the Fund's offering documents and Trust Deed. The valuation does not include unsettled trades. The net asset value of each unit at 31 March 2011 was \$0.8960 (Mar 2010: \$0.8627).

NZ IFRS requires that long quoted investment positions be valued at the closing bid prices (excluding provision for disposal costs) on the relevant trading day. The NZ IFRS net asset value of each unit at 31 March 2011 was \$0.8933 (Mar 2010: \$0.8595).

Notes to the Financial Statements

Continued

10. FAIR VALUE

Financial instruments can be categorised across the following 3 levels based on the degree to which their fair value is 'observable':

Level 1 – Fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Fair value measurements are derived from inputs other than quoted prices included within level 1 that are observable either directly or indirectly;

Level 3 – Fair value measurements are derived from valuation methods that include inputs that are not based on observable market data.

All financial instruments of the Fund have been categorised as level 1 in the hierarchy. There were no transfers between levels in the period ended 31 March 2011.

11. EVENTS AFTER THE BALANCE SHEET DATE

There were no events after balance date.

12. CONTINGENT LIABILITIES

There are no known contingent liabilities as at 31 March 2011 (Mar 2010: nil).

13. ISSUED BUT NOT YET EFFECTIVE ACCOUNTING STANDARDS

NZ IFRS 7 Financial Instrument has the following amendments:

- ▶ Amended and removed existing disclosure requirements and requires that qualitative disclosure should be made in relation to the quantitative disclosure to better enable users to evaluate an entity's exposure to risks arising from financial instruments. The impact of this change has not yet been determined.

NZ IFRS 9 Financial Instruments has the following amendments:

- ▶ Simplifies the mixed measurement model and establishes amortised cost and fair value categories for financial assets. The basis of classification depends on the business model of the entity and the contractual cash flow characteristics of the financial asset.
- ▶ Measurements and classification requirements of financial liabilities remain unchanged, except fair value option and certain derivatives linked to unquoted equity instruments.

The impact of any changes has not yet been determined

There are a number of other issued but not yet effective standards that the Fund has assessed as having either no impact or the impact has yet to be determined.

Unitholder Information

DISTRIBUTION OF SECURITY HOLDERS AND SECURITY HOLDINGS AS AT 31 MARCH 2011

	No. of holders	% of holders	No. of securities	% of securities
1 to 1,000	122	4.58%	30,151	0.04%
1,001 to 5,000	585	21.96%	1,687,777	2.19%
5,001 to 10,000	779	29.24%	5,891,497	7.66%
10,001 to 100,000	1,144	42.94%	27,042,700	35.17%
100,001 and above	34	1.28%	42,249,129	54.94%
Total	2,664	100.00%	76,901,254	100.00%

20 LARGEST REGISTERED HOLDERS OF QUOTED EQUITY SECURITIES AS AT 31 MARCH 2011

Full Name	Total	Percentage
New Zealand Central Securities Depository Limited	13,952,962	18.14%
J P Morgan Chase Bank N A (1562-0001 A/C)	8,198,845	10.66%
New Zealand Central Securities Depository Limited (Supplementary Div Cash A/C)	3,604,658	4.69%
HSBC Nominees (New Zealand) Limited (040-024663-126 A/C)	2,928,560	3.81%
J P Morgan Chase Bank N A (1783-0001 A/C)	2,755,365	3.58%
Investment Custodial Services Limited (C A/C)	2,353,643	3.06%
UBS New Zealand Limited	1,140,996	1.48%
Accordia Nominees Limited	839,013	1.09%
Custodial Services Limited (3 A/C)	760,062	0.99%
Custodial Services Limited (2 A/C)	608,158	0.79%
Eeshala Nominees Limited	505,999	0.66%
Roger Arthur Cornish & Nancy Joan Cornish	500,000	0.65%
Mohua Limited	449,969	0.59%
Maori Investments Limited	376,698	0.49%
Custodial Services Limited (8 A/C)	276,398	0.36%
Thomas W Schnackenberg & Annette H Schnackenberg	269,044	0.35%
Tania N T Murray & Neil L Murray & Brown Street Trustees Limited (Piqqadown A/C)	248,340	0.32%
FNZ Custodians Limited	216,613	0.28%
Bruce Moncur Stewart	193,735	0.25%
JB Were (NZ) Nominees Limited (51750 A/C)	185,200	0.24%
	40,364,258	52.48%

Unitholder Information

Continued

SUBSTANTIAL SECURITY HOLDERS

The following information is given pursuant to section 35F of the Securities Markets Act 1988. According to the file kept by the Fund under section 35C of the Securities Market Act 1988, as at 31 March 2011 substantial holders in the Fund were New Zealand Central Securities Depository Limited with 13,952,962 units and J P Morgan Chase Bank N A (1562-0001 A/C) with 8,198,845 units. The total number of units on issue at 31 March 2011 was 76,901,254.

DIRECTORS' INTERESTS IN UNITS AS AT 31 MARCH 2011

	Beneficial	Non-Beneficial
Fiona Mackenzie (appointed 14 September 2009)	-	-
Geoffrey Brown (resigned 21 May 2010)	-	-
Damas Potoi (resigned 6 April 2010)	-	-
Garth Taylor (appointed 6 April 2010, resigned 9 November 2010)	-	-
Rowan Macrae (appointed 21 May 2010)	-	-
Helena Lewis (appointed 9 November 2010)	-	-

WAIVERS GRANTED

The Special Division of New Zealand Markets Disciplinary Tribunal (formerly NZX Discipline) has granted, either fully, partially or subject to conditions, the following waivers from the Listing Rules that were applicable at 31 March 2011:

- 1.9.1 – provisions of Rules applying to Equity Securities.
- 3.1.1(a) – compliance with the Listing Rules
- 3.1.3 – Compliance with the provisions in Appendix 6.
- 3.3.1(c) to 3.3.1C, 3.6.2(a) and 3.6.2(c) – Requirements for an Audit Committee and Independent Directors.
- 3.3.2 to 3.3.12 – Appointment and Rotation of Directors.
- 3.4 – Proceedings and Power of Directors.
- 3.5 – Directors' remuneration.
- Section 4 and 3.1.1(b) – Takeover Provisions.
- 7.1.7 – Regulation 23 statements for Offering Documents.
- 7.1.11 – Minimum Subscription.
- 7.3 – Issues of Securities.
- 7.4 – Entitlements to Third Parties.
- 7.5 – Issues and Redemptions affecting Control.
- 7.6.1 to 7.6.3 – Buybacks and Redemptions.
- 7.11.1 – Time for Allotment.
- 7.12.2 – Notification of event affecting Securities.
- 8.2.1 to 8.2.3 – Lien on Distributions.
- 8.3.1 – Ruling in relation to Interest Groups.
- 9.1.1(b) – Disposition or acquisition of assets.
- 9.2.1(a) – Material Transactions with Related Parties.
- 10.4.2, 10.5.1(b) – Contents required for Preliminary Announcement and Annual Report.
- 10.5.2 – Half-yearly reporting requirements.
- 10.8.1(a) – Notification of subdivision, consolidation or issue of securities.
- 11.1.1 – Restrictions on Transfers.
- 11.1.5 – Approval for restrictions in Trust Deed.
- 11.2.3 – Statements after Issues or Transfers.
- Appendix 2 – Minimum Holding.



Independent Auditor's Report

To the Unitholders of NZX 10 Fund

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of NZX 10 Fund ("the Fund") on pages 6 to 18. The financial statements comprise the statement of financial position as at 31 March 2011 and the statements of comprehensive income, changes in net assets attributable to unitholders and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Manager's Responsibility for the Financial Statements

The Manager is responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards that give a true and fair view of the matters to which they relate, and for such internal control as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other than in our capacity as auditors we have no relationship with, or interests in, the Fund.

Opinion

In our opinion the financial statements of NZX 10 Fund on pages 6 to 18:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the Fund as at 31 March 2011 and of its financial performance and cash flows for the year ended on that date.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by NZX 10 Fund as far as appears from our examination of those records.

27 May 2011
Wellington

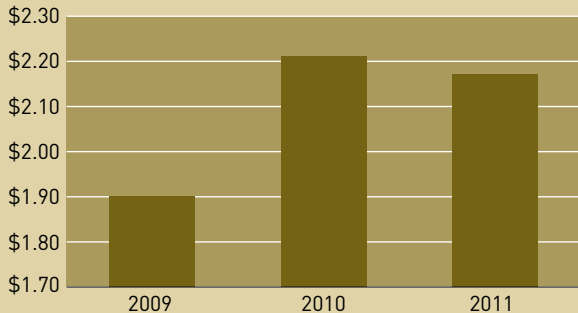
NZX Midcap Index Fund (smartMIDZ)

Performance for the Financial Year ended 31 March 2011

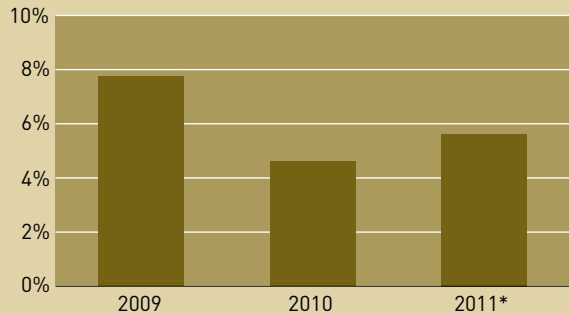
HIGHLIGHTS

	March 2011	March 2010
NTA	\$2.150	\$2.237
Price	\$2.170	\$2.210
Price (Discount)/Premium to NTA	\$0.020	\$(0.027)
Full Year Dividend*	\$0.124	\$0.104
Gross Dividend Yield*	5.63%	4.60%
Gross Return*		
- 1yr	4.54%	22.68%
- Annualised since Inception	5.50%	5.88%
Funds Under Management	\$36,055,609	\$37,241,488

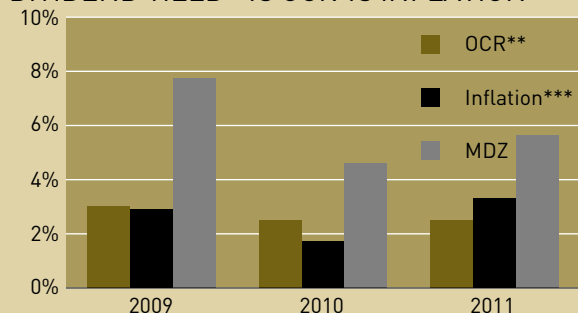
SHARE PRICE



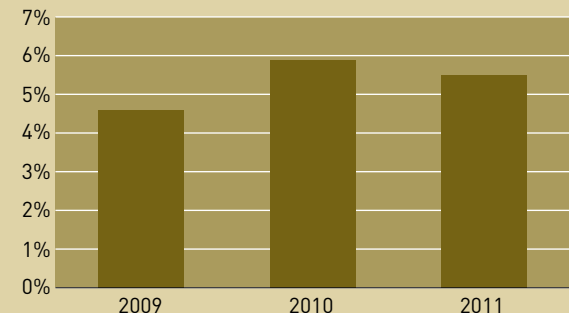
GROSS DIVIDEND YIELD*



DIVIDEND YIELD* vs OCR vs INFLATION



GROSS RETURNS* SINCE INCEPTION



* Change in fund structure from 01 April 2010 means that 2011 figures are shown net of management fees whilst all prior years are gross of management fees. MDZ distribution for 2010 may not represent a full year dividend

** Official Cash Rate sourced from RBNZ

*** Inflation data sourced from the RBNZ (Weighted Median Y/Y%)



NZX Midcap Index Fund

Report to Unitholders



FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011
Presented by Smartshares Limited, Manager of the NZX Midcap Index Fund

Financial Statements

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2011

	Note	2011 \$000	2010 \$000
INCOME			
Dividends		1,899	2,022
Other income		1	-
Net changes in fair value of financial assets		(1,180)	6,405
Total Net Income		720	8,427
EXPENSES			
Management fees	7	282	286
Total Expenses		282	286
Net Profit/(Loss) before Tax		438	8,141
Tax expense	4	28	24
Net Profit/(Loss) after Tax		410	8,117

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS FOR THE YEAR ENDED 31 MARCH 2011

	Note	2011 \$000	2010 \$000
Opening Net Assets Attributable to Unitholders		37,451	31,999
Net Profit/(Loss) after tax		410	8,117
Net subscriptions (redeemed)/allotted	5	(511)	(953)
Distribution to Unitholders	6	(1,626)	(1,712)
Closing Net Assets Attributable to Unitholders		35,724	37,451

These financial statements should be read in conjunction with the notes on pages 25-32

BALANCE SHEET
AS AT 31 MARCH 2011

	Note	2011 \$000	2010 \$000
CURRENT ASSETS			
Cash at call		1,361	915
Accounts receivable		162	198
Taxation receivable		112	75
Total Current Assets		1,635	1,188
NON-CURRENT ASSETS			
Investments in equity securities held at fair value	8	35,807	37,451
Total Non-Current Assets		35,807	37,451
Total Assets		37,442	38,639
CURRENT LIABILITIES			
Management fees payable	7	24	25
Funds held for unit purchases		51	61
Other current liabilities	7	2	-
Distribution payable to Unitholders	6	1,641	1,102
Total Liabilities		1,718	1,188
Net Assets attributable to Unitholders		35,724	37,451

These financial statements should be read in conjunction with the notes on pages 25-32

The Board of Directors of Smartshares Limited authorised these financial statements for issue on 27 May 2011.



F MACKENZIE CHAIRMAN
SMARTSHARES LIMITED



R MACRAE DIRECTOR
SMARTSHARES LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2011

	Note	2011 \$000	2010 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Dividends received		1,936	1,980
Other income received	7	1	-
Cash inflows from operating activities		1,937	1,980
CASH WAS APPLIED TO:			
Tax received/(paid) directly by the Fund		(65)	24
Management fees paid		(283)	(283)
Cash outflows from operating activities		(348)	(259)
Net Cash Flows from Operating Activities		1,589	1,721
CASH FLOWS FROM INVESTING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Net repayments to Fund Manager	7	2	-
Cash inflows/(outflows) from investing activities		2	-
Net Cash Flows from Investing Activities		2	-
CASH FLOWS FROM FINANCING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Savings plan & direct purchase deposits		392	687
Cash inflows from financing activities		392	687
CASH WAS APPLIED TO:			
Purchase of financial assets		(449)	(736)
Distributions paid to Unitholders	6	(678)	(1,183)
Distributions paid for dividend reinvestment	6	(409)	(499)
Cash outflows from financing activities		(1,536)	(2,418)
Net Cash Flows from Financing Activities		(1,144)	(1,731)
Net increase/(decrease) in cash held		447	(10)
Opening cash balance		915	925
Cash at End of Period		1,362	915
RECONCILIATION OF NET PROFIT/(LOSS) AFTER TAX WITH NET CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit/(loss) after tax		410	8,117
LESS NON-CASH ITEMS:			
Net changes in fair value of financial assets		1,180	(6,405)
Operating movement in taxation receivable		37	48
Movement in management fee payable		(1)	3
Movement in accounts receivable		(37)	(42)
Net Cash Flows from Operating Activities		1,589	1,721

These financial statements should be read in conjunction with the notes on pages 25-32

Notes to the Financial Statements

1. GENERAL INFORMATION

The NZX Midcap Index Fund (the 'Fund') is a for-profit open-ended Group Investment Fund established in New Zealand 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 (the 'Act') and these financial statements are presented in compliance with the Act. The Fund holds a portfolio of marketable securities for the long term as an investment vehicle for individual Unitholders. Distributions are made up of dividends received from the investments, security lending income received less expenses paid. All changes in the value of investments, both realised and unrealised are recorded in the Statement of Comprehensive Income.

The Fund's investment activities are managed by Smartshares Limited (the 'Manager') tracking the NZX Midcap Index (the 'Index'). As prescribed by the Trust Deed, the Fund only invests in the securities included in the Index in proportion to the market capitalisation of the Index and the available capital of the Fund. The Fund's units are listed and traded on the NZX Main Board. Investments are valued at fair value according to last bid prices on the NZX Main Board on 31 March 2011 (see Note 8).

2. STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 BASIS OF PREPARATION

The financial statements of the Fund have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'), being the New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS'). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss. The functional currency of this entity is the same as the presentation currency of these financial statements being the New Zealand Dollar ('NZD'), rounded to the nearest thousand.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Smartshares Board of Directors to exercise its judgement in the process of applying the Fund's accounting policies.

2.2 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(a) Classification

The Fund classifies its investments in equity securities held at fair value as financial assets at fair value through profit or loss. These financial assets are designated by the Smartshares Board of Directors at inception as their performance is managed and evaluated on a fair value basis in accordance with a documented investment strategy.

(b) Recognition/derecognition

Regular purchases and sales of investments are recognised on the trade date – the date on which the Fund commits to purchase or sell the investment. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

(c) Measurement

Financial assets at fair value through profit or loss are recognised at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the profit or loss in the Statement of Comprehensive Income when they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the profit or loss in the Statement of Comprehensive Income within dividend income when the Fund's right to receive payment is established.

(d) Fair value estimation

The fair value of the financial instruments is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Fund is the last bid price.

Notes to the Financial Statements

Continued

2.3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are 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 the Unitholders.

2.4 UNITS

The Fund issues units, which provide the holder with a residual interest in the Fund. The unit is carried at the proportion of the Fund's net asset value at the balance sheet date. The units can be put back to the Fund at any time, in accordance with the redemption rules as defined in the prospectus, for securities of the constituent companies in proportion to the Index and of a proportion of cash held in the Fund.

The units are issued and redeemed at the Unitholder's option at prices based on the Fund's net asset value per unit at the time of issue or redemption. The Fund's net asset value per unit is calculated by dividing the net assets attributable to the Unitholders by the total number of outstanding units. In accordance with the provisions of the Trust Deed investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit for subscriptions and redemptions.

Unitholders' funds are classified as equity instruments.

2.5 DIVIDEND INCOME

Dividend income is recognised when the right to receive payment is established.

2.6 DISTRIBUTIONS PAYABLE TO HOLDERS OF UNITS

Income from investments held is attributed to Unitholders on the basis of the number of units held at the entitlement date of the Unitholder distribution. Proposed distributions to Unitholders are recognised when they become payable as outlined in the Trust Deed.

Distributions are made on 20 April (record date 31 March) and 20 October (record date 30 September).

2.7 TAXATION

The Fund is domiciled in New Zealand and is registered as a Portfolio Investment Entity ('PIE').

The Fund is liable for tax at the prevailing company tax rate on taxable dividends (excluding dividends from entities subject to the Fair Dividend Rate method ('FDR')) from the entities listed in Note 8 after the deduction of management fees. 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. For securities subject to FDR, the Fund is liable for tax based on the market value of the security. All distributions to Unitholders are imputed to the extent permitted by the imputation credits that the directors of the entity determine are available.

2.8 CHANGES IN ACCOUNTING POLICIES

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

2.9 CHANGES IN THE FUND OPERATIONAL STRUCTURE

Discontinuation of Unitholder Distribution Account

The Manager has discontinued the use of Unitholder Distribution Accounts ('UDA'). From 1 April 2010, income and expenses of the Fund are retained in the Fund itself and are subsequently reflected in the unit price.

The Fund will continue to make six-monthly distributions to Unitholders, with each Unitholder's entitlement based on their holding as at the record date for that distribution.

Unless a Unitholder elects to receive their share of a distribution in cash, their portion is automatically reinvested and the Unitholder is issued with additional units to the same value, rounded down to the nearest whole unit.

Calculation of the Net Asset Value (NAV)

Discontinuation of the use of UDAs has allowed the Fund to move to an "accrual-based" model for calculating the Fund's NAV, which is the basis for its unit pricing. The move to an accrual-based model means that the NAV per unit now includes both the value of the underlying securities held in the Fund, and the Fund's other assets and liabilities, including but not limited to: accrued dividends, accrued management fees and tax.

Distributions

From 1 April 2010, Unitholder's distribution entitlements are determined based on whether the Unitholder holds units at the record date set for the Fund's six-monthly distribution. Distribution rates per unit are the same for all investors within the Fund.

The Manager may, at its discretion, deduct from any distribution an amount of cash if the Manager reasonably considers that such a deduction is required to meet any liabilities that become payable in a future distribution period.

Change to Distribution Cycle

The Fund distribution dates have changed to align with the standard distribution cycles of New Zealand funds. From 1 April 2010 distributions will be made directly from the Fund within 20 business days after the last business day of March and September.

Management Fees Calculation

From 1 April 2010 the Manager ceased charging management fees to UDAs, with the fees now charged to the Fund directly. Accordingly, management fees are reflected in the unit price. No investor is charged management fees at a higher rate under the new structure. The management fee is calculated daily as a percentage of the NAV of the Fund.

From 1 April 2010 the management fees in the Financial Statements have been recorded at a gross level and do not include rebates provided to large Unitholders by the Manager.

Securities Lending

The Manager has implemented a securities lending programme for the Fund. Securities lending involves the transfer of legal title and beneficial interest in the securities to a third party borrower. The Fund receives income earned from securities lending following payment of the Manager's costs of administration.

Under the securities lending programme, the Fund receives a cash payment for any dividends (including any applicable tax credits) paid in respect of any loaned securities on the record date of the dividend, so that the Fund will receive the same return from the securities that it would have were it to have held them directly.

Risks associated with securities lending are detailed in the Financial Risk Management section 3.4 of these notes.

Notes to the Financial Statements

Continued

3. FINANCIAL RISK MANAGEMENT

The Fund's activities expose it to a variety of financial risks: market risk, credit risk, liquidity risk and security lending risk. The Fund does not have exposure to currency risk or interest rate risk.

3.1 MARKET PRICE RISK

The Fund's equity securities are susceptible to market price risk arising from uncertainties about future prices of the financial instruments. The market exposures are outlined in Note 8. The Fund's market risk is affected by actual changes in market prices. As this Fund tracks an index, any change in the underlying index will result in a corresponding change in the assets at fair value through profit or loss. In accordance with the terms of the Trust Deed the Fund Manager does not manage this risk.

3.2 CREDIT RISK

The Fund is exposed to 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 subject the Fund to credit risk consist primarily of cash, accounts receivable and investments in equity securities held at fair value. The maximum credit risk of financial instruments is considered to be fair 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:

	Mar 2011 \$000	Mar 2010 \$000
Cash	1,361	915
Accounts receivable	162	198
Investments in equity securities held at fair value	35,807	37,451

3.3 LIQUIDITY RISK

The Fund's listed securities are considered readily realisable, as they are listed on the NZX Main Board.

3.4 SECURITIES LENDING RISK

The potential risks associated with securities lending include, but are not limited to, the following:

- ▶ Borrower credit risk and settlement risk
- ▶ Failure of the central counterparty settlement system
- ▶ Operational & legal risk

In order to limit the Fund's exposure to risk that may arise as a result of securities lending the Fund has a limitation of 50% of the value of its securities it may lend at any point in time.

At 31 March 2011, the single borrower of the Fund's securities is New Zealand Clearing Limited, a wholly owned subsidiary of NZX Limited. Securities lent are backed against the collateral of the borrower. At 31 March 2011 the amount of securities the Fund had on loan to the Clearing House was \$608,000.

4. TAXATION

	Year Ended Mar 2011 \$000	Year Ended Mar 2010 \$000
INCOME TAX EXPENSE		
Net Profit/(Loss) before tax	438	8,141
Add back management fees	-	286
Add back decrease/(increase) in net changes in fair value of financial assets	1,180	(6,405)
Fully imputed accrued dividends movement	36	(43)
Non-taxable receipts	(532)	(581)
Gross up of imputation credits	436	558
Gross up of Dividend Withholding Payment (DWP) credits	-	7
Taxable income	1,558	1,963
Taxation at 30%	467	589
Less imputation credits, DWP and foreign income tax credits	(439)	(550)
Prior period adjustment	-	(15)
Tax expense	28	24
IMPUTATION CREDITS		
Opening balance	150	185
Imputation credits received during the period	436	558
Net tax (received)/paid during the period	65	(24)
	651	719
Credits attached to distributions paid	(405)	(569)
Closing balance	246	150
DIVIDEND WITHHOLDING PAYMENT CREDITS		
Opening balance	7	20
DWP credits received during the period	-	7
Credits attached to distributions paid	(7)	(20)
Closing balance	-	7

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by New Zealand corporate entities on taxable profits under New Zealand tax law. There has been a change in the corporate tax rate from 30% to 28% from 1 April 2011.

Notes to the Financial Statements

Continued

5. UNITS

All issued units are fully paid and redeemable, and have been admitted to the official listing of the NZX Main Board. The Fund's net assets attributable to Unitholders are represented by these units. The Fund has no restrictions or specific capital requirements on the subscriptions and redemptions of units, other than minimum holding requirements as defined in the prospectus. The relevant movements are shown on the Statement of Changes in Net Assets Attributable to Unitholders.

6. DISTRIBUTION TO UNITHOLDERS

	Total attributed to Unitholders Mar 2011 \$000	Total attributed to Unitholders Mar 2010 \$000
Opening Distribution payable	1,102	1,072
Distribution accrued to Unitholders	1,626	1,712
	2,728	2,784
Distributed to Unitholders	(1,087)	(1,682)
Closing Distribution payable	1,641	1,102

7. RELATED PARTIES

The Fund is managed by Smartshares Limited (the 'Manager'), a wholly owned subsidiary of NZX Limited. Smartshares Limited receives management fees from the Fund. Under the Trust Deed the Manager pays the Trustee, Custodian, Registrar and Auditor in respect of the Fund and receives all basket application and withdrawal fees and interest earned on cash at call. Total gross management fees excluding rebates for the year ended 31 March 2011 amounted to \$282,000 (Year Ended ending 31 March 2010 \$286,000, rebates not applicable), with \$24,000 (March 2010: \$25,000) outstanding accrued fees due to Smartshares Limited at the end of the period. At 31 March 2011 the Fund has payables to Smartshares Limited of \$2,000 (March 2010: \$nil).

The Fund has entered into a securities lending agreement with New Zealand Clearing Limited, a wholly owned subsidiary of NZX Limited. Securities lent are backed against the collateral of the borrower. As at 31 March 2011 the amount of securities the Fund had on loan to the Clearing House was \$608,017. Total security lending fees for the period ended 31 March 2011 of \$1,000 (March 2010: \$nil), with accrued fees due to the Fund of \$300 (March 2010: \$nil). The audit fee paid by the Manager for the audit of the Fund for the year to 31 March 2011 was \$3,000 (2010: \$4,000).

8. INVESTMENTS IN EQUITY SECURITIES HELD AT FAIR VALUE AS AT 31 MARCH 2011

Company	Number of securities	Fair Value (\$)
Air New Zealand Limited	870,293	957,322
AMP NZ Office Trust	2,588,379	2,096,587
Argosy Property Trust	1,351,518	973,093
Cavalier Corporation Limited	176,172	628,934
DNZ Property Fund Limited	793,431	975,920
Ebos Group Limited	166,718	1,250,385
Fisher & Paykel Appliances Holdings Limited	1,864,351	1,109,289
Freightways Limited	494,349	1,606,634
Goodman Property Trust	2,580,002	2,399,402
Hallenstein Glasson Holdings Limited	152,146	552,442
Kathmandu Holdings Limited	643,558	1,480,183
Mainfreight Limited	260,366	2,314,654
Michael Hill International Limited	517,264	450,020
Methven Limited	120,978	187,516
Nuplex Industries Limited	627,665	1,926,932
New Zealand Oil & Gas Limited	1,264,086	1,150,318
New Zealand Refining Company Limited	246,049	1,195,798
NZX Limited	375,195	799,165
Property for Industry Limited	697,487	795,135
Pyne Gould Corp Limited	2,230,816	602,320
PGG Wrightson Limited	1,528,625	794,885
Port of Tauranga Limited	194,329	1,583,781
Pumpkin Patch Limited	539,419	722,821
Rakon Limited	528,666	597,393
Restaurant Brands (NZ) Limited	314,581	717,245
Sanford Limited	157,764	814,062
Skellerup Holdings Ltd	620,409	818,940
Steel & Tube Holdings Limited	72,231	184,911
TrustPower Limited	166,704	1,200,269
Tower Limited	564,716	1,027,783
Vector Limited	787,571	1,953,176
Vital Healthcare Property Trust	924,702	980,184
The Warehouse Group Limited	286,747	959,742
		35,807,243

All financial assets are designated at inception as being at fair value through profit or loss. The fair value of financial assets is calculated using the last bid price on the relevant trading day. The fair value of financial assets held at 31 March 2011 was \$35,807,243. (Mar 2010: \$37,451,263). The investments are registered in the name of JB Were (NZ) Nominees Limited, the Custodian of the Fund.

Notes to the Financial Statements

Continued

9. UNITHOLDERS' FUNDS

As at 31 March 2011 there were 16,615,488 (Mar 2010: 16,851,352) units on issue. Due to the requirements of NZ IFRS and IFRS, there are differences between the valuation of investments for the purposes of determining the net asset value and for the purposes of preparing the value of financial assets in the financial statements.

For the purposes of determining the net asset value, quoted investment positions are valued at last traded market prices on the relevant trading day in accordance with the Fund's offering documents and Trust Deed. The valuation does not include unsettled trades. The net asset value of each unit at 31 March 2011 was \$2.1764 (Mar 2010: \$2.237).

NZ IFRS requires that long quoted investment positions be valued at the closing bid prices (excluding provision for disposal costs) on the relevant trading day. The NZ IFRS net asset value of each unit at 31 March 2011 was \$2.1628 (Mar 2010: \$2.222).

10. FAIR VALUE

Financial instruments can be categorised across the following 3 levels based on the degree to which their fair value is 'observable':

Level 1 – Fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Fair value measurements are derived from inputs other than quoted prices included within level 1 that are observable either directly or indirectly;

Level 3 – Fair value measurements are derived from valuation methods that include inputs that are not based on observable market data.

All financial instruments of the Fund have been categorised as level 1 in the hierarchy. There were no transfers between levels in the period ended 31 March 2011.

11. EVENTS AFTER THE BALANCE SHEET DATE

There were no events after balance date.

12. CONTINGENT LIABILITIES

There are no known contingent liabilities as at balance date (Mar 2010: nil).

13. ISSUED BUT NOT YET EFFECTIVE ACCOUNTING STANDARDS

NZ IFRS 7 Financial Instrument has the following amendments:

- ▶ Amended and removed existing disclosure requirements and requires that qualitative disclosure should be made in relation to the quantitative disclosure to better enable users to evaluate an entity's exposure to risks arising from financial instruments. The impact of this change has not yet been determined.

NZ IFRS 9 Financial Instruments has the following amendments:

- ▶ Simplifies the mixed measurement model and establishes amortised cost and fair value categories for financial assets. The basis of classification depends on the business model of the entity and the contractual cash flow characteristics of the financial asset.
- ▶ Measurements and classification requirements of financial liabilities remain unchanged, except fair value option and certain derivatives linked to unquoted equity instruments.

The impact of any changes has not yet been determined.

There are a number of other issued but not yet effective standards that the Fund has assessed as having either no impact or the impact has yet to be determined.

Unitholder Information

DISTRIBUTION OF SECURITY HOLDERS AND SECURITY HOLDINGS AS AT 31 MARCH 2011

	No. of holders	% of holders	No. of securities	% of securities
1 to 1,000	198	10.17%	86,223	0.52%
1,001 to 5,000	812	41.71%	2,436,814	14.67%
5,001 to 10,000	515	26.45%	3,627,850	21.83%
10,001 to 100,000	410	21.06%	7,909,757	47.60%
100,000 and above	12	0.62%	2,554,844	15.38%
Total	1,947	100.00%	16,615,488	100.00%

20 LARGEST REGISTERED HOLDERS OF QUOTED EQUITY SECURITIES AS AT 31 MARCH 2011

Full Name	Total	Percentage
Custodial Services Limited (2 A/C)	327,118	1.97%
New Zealand Central Securities Depository Limited (DRP Account)	323,670	1.95%
Custodial Services Limited (3 A/C)	283,232	1.70%
Accordia Nominees Limited	248,400	1.49%
UBS New Zealand Limited	217,189	1.31%
New Zealand Law Foundation	214,252	1.29%
Custodial Services Limited (8 A/C)	212,905	1.28%
Mohua Limited	164,737	0.99%
Custodial Services Limited (18 A/C)	163,281	0.98%
New Zealand Central Securities Depository Limited (Supplementary Div Cash A/C)	136,984	0.82%
Craigs Investment Partners Limited	136,015	0.82%
Maori Investments Limited	127,061	0.76%
Dennis George Row & Joan Doran Row & SW Trust Services Limited (Avalon A/C)	82,067	0.49%
Daisy Joyce Burrell	67,327	0.41%
Gavin Douglas Horne & Brett Richard Highsted (Atf Doug Horne Family A/C)	64,501	0.39%
Geoffrey Wayne Smith	59,431	0.36%
Keith Orsbourne Ballagh & Josephine Jane Frances Ballagh	57,804	0.35%
Kerry Wayne Petersen & Beverly Petersen	56,395	0.34%
Kathryn May Kelly & David Anderson Smith (Kelly Dickison A/C)	56,160	0.34%
David Anderson Smith & Graeme Albert Smaill (Logan Leith No 2 A/C)	56,160	0.34%
Colin Frederick Olsen	54,275	0.33%
	3,108,964	18.71%

Unitholder Information

Continued

SUBSTANTIAL SECURITY HOLDERS

The following information is given pursuant to section 35F of the Securities Markets Act 1988. According to the file kept by the Fund under section 35C of the Securities Market Act 1988, there were no substantial holders in the Fund as at 31 March 2011. The total number of units on issue at 31 March 2011 was 16,615,488.

DIRECTORS' INTERESTS IN UNITS AS AT 31 MARCH 2011

	Beneficial	Non-Beneficial
Geoffrey Brown (resigned 21 May 2010)	-	-
Fiona Mackenzie (appointed 14 September 2009)	-	-
Damas Potoi (resigned 6 April 2010)	-	-
Garth Taylor (appointed 6 April 2010, resigned 6 November 2010)	-	-
Rowan Macrae (appointed 21 May 2010)	-	-
Helena Lewis (appointed 9 November 2010)	-	-

WAIVERS GRANTED

The Special Division of New Zealand Markets Disciplinary Tribunal (formerly NZX Discipline) has granted, either fully, partially or subject to conditions, the following waivers from the Listing Rules that were applicable at 31 March 2011:

- 1.9.1 – provisions of Rules applying to Equity Securities.
- 3.1.1(a) – compliance with the Listing Rules
- 3.1.3 – Compliance with the provisions in Appendix 6.
- 3.3.1(c) to 3.3.1C, 3.6.2(a) and 3.6.2(c) – Requirements for an Audit Committee and Independent Directors.
- 3.3.2 to 3.3.12 – Appointment and Rotation of Directors.
- 3.4 – Proceedings and Power of Directors
- 3.5 – Directors' remuneration.
- Section 4 and 3.1.1(b) – Takeover Provisions.
- 7.1.7 – Regulation 23 statements for Offering Documents.
- 7.1.11 – Minimum Subscription.
- 7.3 – Issues of Securities.
- 7.4 – Entitlements to Third Parties.
- 7.5 – Issues and Redemptions affecting Control.
- 7.6.1 to 7.6.3 – Buybacks and Redemptions.
- 7.11.1 – Time for Allotment.
- 7.12.2 – Notification of event affecting Securities.
- 8.2.1 to 8.2.3 – Lien on Distributions.
- 8.3.1 – Ruling in relation to Interest Groups.
- 9.1.1(b) – Disposition or acquisition of assets.
- 9.2.1(a) – Material Transactions with Related Parties.
- 10.4.2, 10.5.1(b) – Contents required for Preliminary Announcement and Annual Report.
- 10.5.2 – Half-yearly reporting requirements.
- 10.8.1(a) – Notification of subdivision, consolidation or issue of securities.
- 11.1.1 – Restrictions on Transfers.
- 11.1.5 – Approval for restrictions in Trust Deed.
- 11.2.3 – Statements after Issues or Transfers.
- Appendix 2 – Minimum Holding.



Independent Auditor's Report

To the Unitholders of NZX Midcap Index Fund

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of NZX Midcap Index Fund ("the Fund") on pages 22 to 32. The financial statements comprise the statement of financial position as at 31 March 2011 and the statements of comprehensive income, changes in net assets attributable to unitholders and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Manager's Responsibility for the Financial Statements

The Manager is responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards that give a true and fair view of the matters to which they relate, and for such internal control as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other than in our capacity as auditors we have no relationship with, or interests in, the Fund.

Opinion

In our opinion the financial statements of NZX Midcap Index Fund on pages 22 to 32:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the Fund as at 31 March 2011 and of its financial performance and cash flows for the year ended on that date.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by NZX Midcap Index Fund as far as appears from our examination of those records.

27 May 2011
Wellington

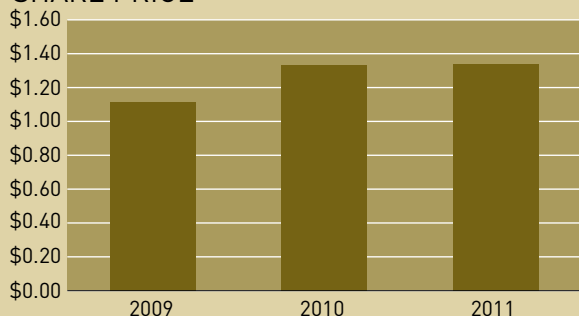
NZX 50 Portfolio Index Fund (smartFONZ)

Performance for the Financial Year ended 31 March 2011

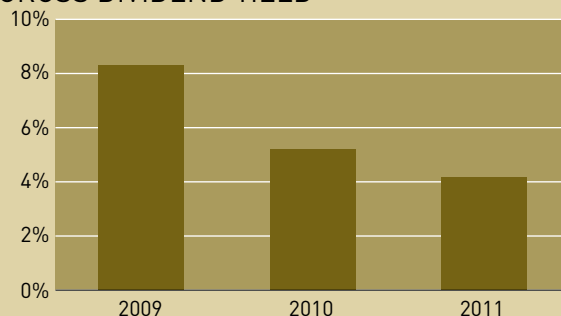
HIGHLIGHTS

	March 2011	March 2010
NTA	\$1.331	\$1.335
Price	\$1.339	\$1.331
Price (Discount)/Premium to NTA	\$0.008	\$(0.004)
Full Year Dividend*	\$0.056	\$0.070
Gross Dividend Yield*	4.15%	5.20%
Gross Return*		
- 1yr	4.75%	26.68%
- Annualised since Inception	2.00%	2.52%
Funds Under Management	\$82,891,688	\$69,818,865

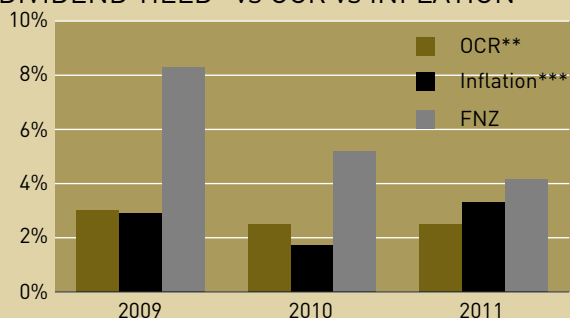
SHARE PRICE



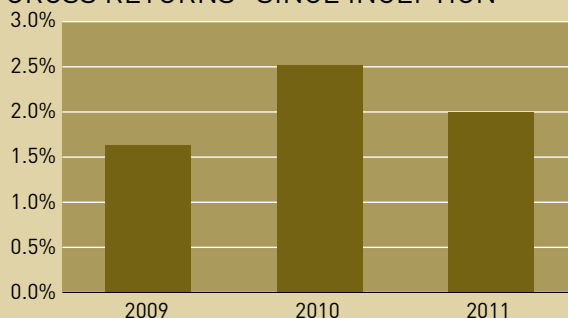
GROSS DIVIDEND YIELD*



DIVIDEND YIELD* vs OCR vs INFLATION



GROSS RETURNS* SINCE INCEPTION



* Change in fund structure from 01 April 2010 means that 2011 figures are shown net of management fees whilst all prior years are gross of management fees

** Official Cash Rate sourced from RBNZ

*** Inflation data sourced from the RBNZ (Weighted Median Y/Y%)



NZX 50 Portfolio Index Fund

Report to Unitholders



FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011
Presented by Smartshares Limited, Manager of the NZX 50 Portfolio Index Fund

Financial Statements

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2011

	Note	2011 \$000	2010 \$000
INCOME			
Dividends		4,141	2,898
Other income		8	-
Net changes in fair value of financial assets		(342)	11,873
Total Net Income		3,807	14,771
EXPENSES			
Management fees	7	584	324
Total Expenses		584	324
Net Profit/(Loss) before Tax		3,223	14,447
Tax expense	4	145	258
Net Profit/(Loss) after Tax		3,078	14,189

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS FOR THE YEAR ENDED 31 MARCH 2011

	Note	2011 \$000	2010 \$000
Opening net assets attributable to Unitholders		70,028	43,523
Net Profit/(Loss) after tax		3,078	14,189
Net subscriptions allotted	5	12,232	14,632
Distribution to Unitholders	6	(2,918)	(2,316)
Closing Net Assets Attributable to Unitholders		82,420	70,028

These financial statements should be read in conjunction with the notes on pages 41-48

BALANCE SHEET
AS AT 31 MARCH 2011

	Note	2011 \$000	2010 \$000
CURRENT ASSETS			
Cash at call		2,222	1,110
Other current assets	7	21	-
Tax receivable		40	-
Accounts receivable		912	425
Total Current Assets		3,195	1,535
NON-CURRENT ASSETS			
Investments in equity securities held at fair value	8	81,780	70,028
Total Non-Current Assets		81,780	70,028
Total Assets		84,975	71,563
CURRENT LIABILITIES			
Management fees payable	7	54	33
Funds held for unit purchases		153	162
Distribution payable to Unitholders	6	2,302	1,275
Tax payable	7	-	8
Total Current Liabilities		2,509	1,478
NON-CURRENT LIABILITIES			
Deferred tax	4	46	57
Total Non-Current Liabilities		46	57
Total Liabilities		2,555	1,535
Net Assets Attributable to Unitholders		82,420	70,028

These financial statements should be read in conjunction with the notes on pages 41-48

The Board of Directors of Smartshares Limited authorised these financial statements for issue on 27 May 2011.



F MACKENZIE CHAIRMAN
SMARTSHARES LIMITED



R MACRAE DIRECTOR
SMARTSHARES LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2011

	Note	2011 \$000	2010 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Dividends received		3,655	2,723
Other income received		7	-
Cash inflows from operating activities		3,662	2,723
CASH WAS APPLIED TO:			
Management fees paid		(563)	(341)
Tax paid directly by the fund		(205)	(223)
Cash outflows from operating activities		(768)	(564)
Net Cash Flows from Operating Activities		2,894	2,159
CASH FLOWS FROM INVESTING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Net repayments to Fund Manager		124	3
Cash inflows from investing activities		124	3
Net Cash Flows from Investing Activities		124	3
CASH FLOWS FROM FINANCING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Savings plan & direct purchase deposits		4,702	9,214
Cash inflows from financing activities		4,702	9,214
CASH WAS APPLIED TO:			
Purchase of financial assets		(4,717)	(9,339)
Dividend reinvestment		(635)	(678)
Distributions directly to Unitholders		(1,256)	(1,378)
Cash outflows from financing activities		(6,608)	(11,395)
Net Cash Flows From Financing Activities		(1,906)	(2,181)
Net increase/(decrease) in cash held		1,112	(19)
Opening cash balance		1,110	1,129
Cash at end of Period		2,222	1,110
RECONCILIATION OF NET PROFIT / (LOSS) AFTER TAX WITH NET CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit/(loss) after tax		3,078	14,189
LESS NON-CASH ITEMS:			
Net changes in fair value of financial assets		342	(11,873)
Operating movement in tax receivable/payable		(48)	-
Movement in deferred tax		(11)	35
Movement in management fees payable		20	(17)
Movement in accounts receivable		(487)	(175)
Net Cash Flows From Operating Activities		2,894	2,159

These financial statements should be read in conjunction with the notes on pages 41-48

Notes to the Financial Statements

1. GENERAL INFORMATION

The NZX 50 Portfolio Index Fund (the 'Fund') is a for-profit open-ended Group Investment Fund established in New Zealand 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 (the 'Act') and these financial statements are presented in compliance with the Act. The Fund holds a portfolio of marketable securities for the long term as an investment vehicle for individual Unitholders. Distributions are made up of dividends received from the investments, security lending income received less expenses paid. All changes in the value of investments in equity securities, both realised and unrealised are recorded in the Statement of Comprehensive Income.

The Fund's investment activities are managed by Smartshares Limited (the 'Manager') tracking the NZX 50 Portfolio Index ('the Index'). As prescribed by the Trust Deed, the Fund only invests in the securities included in the Index in proportion to the market capitalisation of the Index and the available capital of the Fund. The Fund's units are listed and traded on the NZX Main Board. Investments are valued at fair value according to last bid prices on the NZX Main Board on 31 March 2011 (see Note 8).

2. STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 BASIS OF PREPARATION

The financial statements of the Fund have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'), being the New Zealand equivalents to International Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS'). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss. The functional currency of this entity is the same as the presentation currency of these financial statements being the New Zealand Dollar ('NZD'), rounded to the nearest thousand.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Smartshares Board of Directors to exercise its judgement in the process of applying the Fund's accounting policies.

2.2 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(a) Classification

The Fund classifies its investments in equity securities held at fair value as financial assets at fair value through profit or loss. These financial assets are designated by the Smartshares Board of Directors at inception as their performance is managed and evaluated on a fair value basis in accordance with a documented investment strategy.

(b) Recognition/derecognition

Regular purchases and sales of investments are recognised on the trade date – the date on which the Fund commits to purchase or sell the investment. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

(c) Measurement

Financial assets at fair value through profit or loss are recognised at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the profit or loss in the Statement of Comprehensive Income when they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the profit or loss in the Statement of Comprehensive Income within dividend income when the Fund's right to receive payment is established.

(d) Fair value estimation

The fair value of the financial instruments is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Fund is the last bid price.

Notes to the Financial Statements

Continued

2.3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are 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 the Unitholders.

2.4 UNITS

The Fund issues units, which provide the holder with a residual interest in the Fund. The unit is carried at the proportion of the Fund's net asset value at the balance sheet date. The units can be put back to the Fund at any time, in accordance with the redemption rules as defined in the prospectus, for securities of the constituent companies in proportion to their Index and of a proportion of cash held in the Fund.

The units are issued and redeemed at the Unitholder's option at prices based on the Fund's net asset value per unit at the time of issue or redemption. The Fund's net asset value per unit is calculated by dividing the net assets attributable to the Unitholders by the total number of outstanding units. In accordance with the provisions of the Trust Deed investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit for subscriptions and redemptions.

Unitholders' funds are classified as equity instruments.

2.5 DIVIDEND INCOME

Dividend income is recognised when the right to receive payment is established.

2.6 DISTRIBUTIONS PAYABLE TO HOLDERS OF UNITS

Income from investments held is attributed to Unitholders on the basis of the number of units held at the entitlement date of the Unitholder distribution. Proposed distributions to Unitholders are recognised when they become payable as outlined in the Trust Deed.

Distributions are made on 20 April (record date 31 March) and 20 October (record date 30 September).

2.7 TAXATION

The Fund is domiciled in New Zealand and is registered as a Portfolio Investment Entity ('PIE').

The Fund is liable for tax at the prevailing company tax rate on taxable dividends (excluding dividends from entities subject to the Fair Dividend Rate method ('FDR')) from the entities listed in Note 8, after the deduction of management fees. 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. For securities subject to FDR, the Fund is liable for tax based on the market value of the security. All distributions to Unitholders are imputed to the extent permitted by the imputation credits that the directors of the entity determine are available.

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.8 CHANGES IN ACCOUNTING POLICIES

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

2.9 CHANGES IN THE FUND OPERATIONAL STRUCTURE

Discontinuation of Unitholder Distribution Account

The Manager has discontinued the use of Unitholder Distribution Accounts ('UDAs'). From 1 April 2010, income and expenses of the Fund are retained in the Fund itself and are subsequently reflected in the unit price.

The Fund will continue to make six-monthly distributions to Unitholders, with each Unitholder's entitlement based on their holding as at the record date for that distribution.

Unless a Unitholder elects to receive their share of a distribution in cash, their portion is automatically reinvested and the Unitholder is issued with additional units to the same value, rounded down to the nearest whole unit.

Calculation of the Net Asset Value (NAV)

Discontinuation of the use of UDAs has allowed the Fund to move to an "accrual-based" model for calculating the Fund's NAV, which is the basis for its unit pricing. The move to an accrual-based model means that the NAV per unit now includes both the value of the underlying securities held in the Fund, and the Fund's other assets and liabilities, including but not limited to: accrued dividends, accrued management fees and tax.

Distributions

From 1 April 2010, Unitholder's distribution entitlements are determined based on whether the Unitholder holds units at the record date set for the Fund's six-monthly distribution. Distribution rates per unit are the same for all investors within the Fund.

The Manager may, at its discretion, deduct from any distribution an amount of cash if the Manager reasonably considers that such a deduction is required to meet any liabilities that become payable in a future distribution period.

Change to Distribution Cycle

The Fund distribution dates have changed to align with the standard distribution cycles of New Zealand funds. From 1 April 2010 distributions will be made directly from the Fund within 20 business days after the last business day of March and September.

Management Fees Calculation

From 1 April 2010 the Manager ceased charging management fees to UDAs, with the fees now charged to the Fund directly. Accordingly, management fees are reflected in the unit price. No investor is charged management fees at a higher rate under the new structure. The management fee is calculated daily as a percentage of the NAV of the Fund.

From 1 April 2010 the management fees in the Financial Statements have been recorded at a gross level and do not include rebates provided to large Unitholders by the Manager.

Securities Lending

The Manager has implemented a securities lending programme for the Fund. Securities lending involves the transfer of legal title and beneficial interest in the securities to a third party borrower. The Fund receives income earned from securities lending following payment of the Manager's costs of administration.

Under the securities lending programme, the Fund receives a cash payment for any dividends (including any applicable tax credits) paid in respect of any loaned securities on the record date of the dividend, so that the Fund will receive the same return from the securities that it would have were it to have held them directly.

Risks associated with securities lending are detailed in the Financial Risk Management section 3.4 of these notes.

Notes to the Financial Statements

Continued

3. FINANCIAL RISK MANAGEMENT

The Fund's activities expose it to a variety of financial risks: market risk, credit risk, liquidity risk and security lending risk. The Fund does not have exposure to currency risk or interest rate risk.

3.1 MARKET PRICE RISK

The Fund's equity securities are susceptible to market price risk arising from uncertainties about future prices of the financial instruments. The market exposures are outlined in Note 8. The Fund's market risk is affected by actual changes in market prices. As this Fund tracks an index, any change in the underlying index will result in a corresponding change in the assets at fair value through profit or loss. In accordance with the terms of the Trust Deed the Fund Manager does not manage this risk.

3.2 CREDIT RISK

The Fund is exposed to 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 subject the Fund to credit risk consist primarily of cash, accounts receivable and investments in equity securities held at fair value. The maximum credit risk of financial instruments is considered to be fair 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:

	Mar 2011 \$000	Mar 2010 \$000
Cash	2,222	1,110
Accounts receivable	912	425
Investments	81,780	70,028

3.3 LIQUIDITY RISK

The Fund's listed securities are considered readily realisable, as they are listed on the NZX Main Board.

3.4 SECURITIES LENDING RISK

The potential risks associated with securities lending include, but are not limited to, the following:

- ▶ Borrower credit risk and settlement risk
- ▶ Failure of the central counterparty settlement system
- ▶ Operational & legal risk

In order to limit the Fund's exposure to risk that may arise as a result of securities lending the Fund has a limitation of 50% of the value of its securities it may lend at any point in time.

At 31 March 2011, the single borrower of the Fund's securities is New Zealand Clearing Limited, a wholly owned subsidiary of NZX Limited. Securities lent are backed against the collateral of the borrower. At 31 March 2011 the amount of securities the Fund had on loan to the Clearing House was \$1,017,000.

4. TAXATION

	Year Ended Mar 2011 \$000	Year Ended Mar 2010 \$000
INCOME TAX EXPENSE		
Net Profit/(Loss) before tax	3,223	14,447
Add back management fees	-	324
Add back decrease/(increase) in net changes in fair value of financial assets	342	(11,873)
Non-taxable income	(594)	(398)
Fully imputed accrued dividends movement	(514)	(55)
Gross up of FWT & RWT withheld on dividends	8	33
Gross up of imputation credits	820	591
Capital Distributions	-	(47)
Taxable income	3,285	3,022
Taxation at 30%	986	906
Less imputation credits and other tax credits	(835)	(612)
Effect of tax rate change	(3)	-
Prior period adjustment	(3)	(36)
Tax expense	145	258
DEFERRED TAX		
Opening balance	(57)	(22)
Current year movement	8	(35)
Effect of tax rate change	3	-
Closing balance	(46)	(57)
IMPUTATION CREDITS		
Opening balance	21	190
Imputation credits received during the period	820	591
Net tax paid during the period	202	82
	1,043	863
Credits attached to distributions paid	(657)	(768)
Prior period adjustment	55	(74)
Closing Balance	441	21
DIVIDEND WITHHOLDING PAYMENT CREDITS		
Opening balance	16	11
Credits attached to distributions paid	(2)	(105)
Net tax paid during the period	2	141
Prior period adjustment	(30)	(31)
Closing balance	(14)	16

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by New Zealand corporate entities on taxable profits under New Zealand tax law. There has been a change in the corporate tax rate from 30% to 28% from 1 April 2011. The deferred tax balance at 31 March 2011 is calculated using the new corporate tax rate, and the adjustment above shows the effect of the change in rate of deferred tax.

Notes to the Financial Statements

Continued

5. UNITS

All issued units are fully paid and redeemable, and have been admitted to the official listing of the NZX Main Board. The Fund's net assets attributable to Unitholders are represented by these units. They are entitled to dividends and to payment of a proportionate share based on the Fund's net asset value per unit on the redemption date. The Fund has no restrictions or specific requirements on the subscriptions and redemptions of units, other than minimum holding requirements as defined in the prospectus. The relevant movements are shown on the Statement of Changes in Net Assets attributable to Unitholders.

6. DISTRIBUTION TO UNITHOLDERS

	Total attributed to Unitholders Mar 2011 \$000	Total attributed to Unitholders Mar 2010 \$000
Opening Distribution payable	1,275	1,015
Distribution accrued to Unitholders	2,918	2,316
	4,193	3,331
Distributed to Unitholders	(1,891)	(2,056)
Closing Distribution payable	2,302	1,275

7. RELATED PARTIES

The Fund is managed by Smartshares Limited (the 'Manager'), a wholly owned subsidiary of NZX Limited. Smartshares Limited receives management fees directly from the Fund. Under the Trust Deed the Manager pays the Trustee, Custodian, Registrar and Auditor in respect of the Fund and receives all basket application and withdrawal fees and interest earned on cash at call. Total gross management fees excluding rebates for the year ended 31 March 2011 amounted to \$584,000 (year ending 31 March 2010 \$324,000, rebates not applicable), with \$54,000 (Mar 2010: \$33,000) outstanding accrued fees due to Smartshares Limited at the end of the period. At 31 March 2011 the Fund had payables to Smartshares Limited of \$21,000 (Mar 2010: \$nil).

The Fund has entered into a securities lending agreement with New Zealand Clearing Limited, a wholly owned subsidiary of NZX Limited. Securities lent are backed against the collateral of the borrower. As at 31 March 2011 the amount of securities the Fund had on loan to the Clearing House was \$1,017,460. Total security lending fees for the period ended 31 March 2011 of \$8,000 (March 2010: \$nil), with accrued fees due to the Fund of \$2,000 (March 2010: \$nil).

The audit fee paid by the Manager for the audit of the Fund for the year to 31 March 2011 was \$3,000 (2010: \$4,000).

8. INVESTMENTS IN EQUITY SECURITIES HELD AT FAIR VALUE AS AT 31 MARCH 2011

Company	Number of securities	Fair Value (\$)
Auckland Intl Airport Limited	1,987,359	4,402,000
Air New Zealand Limited	845,328	929,861
AMP Limited	128,958	951,710
AMP Office Trust	2,514,128	2,036,444
Australia and New Zealand Banking Group Limited	64,108	2,052,097
APN News & Media Limited	529,143	1,095,326
Argosy Property Trust	1,312,748	945,179
Cavalier Corporation Limited	171,118	610,891
Contact Energy Limited	445,715	2,571,776
DNZ Property Fund Limited	770,670	947,924
Ebos Group Limited	161,935	1,193,137

8. INVESTMENTS IN EQUITY SECURITIES HELD AT FAIR VALUE AS AT 31 MARCH 2011 (cont)

Company	Number of securities	Fair Value (\$)
Fletcher Building Limited	493,691	4,611,074
Fisher & Paykel Appliance Holdings Limited	1,810,870	1,077,468
Fisher & Paykel Healthcare Corporation Limited	917,768	2,845,081
Freightways Limited	480,168	1,560,546
Goodman Fielder Limited	1,183,639	1,988,514
Goodman Property Trust	2,505,992	2,330,573
Guinness Peat Group Plc	4,606,225	3,638,918
Hallenstein Glasson Holdings Limited	147,781	536,593
Infratil Limited	1,884,063	3,579,720
Kiwi Income Property Trust	3,039,792	3,039,792
Kathmandu Holdings Limited	625,097	1,437,723
Mainfreight Limited	252,897	2,248,254
Michael Hill International Limited	502,426	437,111
Methven Limited	117,508	182,137
Nuplex Industries Limited	609,660	1,871,656
New Zealand Oil & Gas Limited	1,227,825	1,117,321
NZ Refining Company Limited	238,991	1,161,496
NZX Limited	364,432	776,240
Property For Industry Limited	677,479	772,326
Pyne Gould Corporation Limited	2,166,822	585,042
PGG Wrightson Limited	1,484,774	772,082
Port of Tauranga Limited	188,755	1,538,353
Pumpkin Patch Limited	523,945	686,368
Rakon Limited	513,500	580,255
Restaurant Brands Limited	305,557	696,670
Ryman Healthcare Limited	1,562,743	3,703,701
Sanford Limited	153,238	790,708
SKYCITY Entertainment Limited	641,596	2,168,594
Skellerup Holdings Limited	602,612	795,448
Sky Network Television Limited	926,879	5,190,522
Steel & Tube Holdings Limited	70,159	179,607
Telecom Corporation of New Zealand Limited	1,052,552	2,110,367
Telstra Corporation Limited	46,025	174,895
TrustPower Limited	161,922	1,165,838
Tower Limited	548,517	998,301
Vector Limited	764,979	1,897,148
Vital Healthcare Property Trust	898,175	952,066
Westpac Banking Corporation	88,393	2,912,549
The Warehouse Group Limited	278,521	932,210
		81,779,611

All financial assets are designated at inception as being at fair value through profit or loss. The fair value of financial assets is calculated using the last bid price on the relevant trading day. The fair value of financial assets held at 31 March 2011 was \$81,779,611 (Mar 2010: \$70,027,810). The investments are registered in the name of JB Were (NZ) Nominees Limited, the Custodian of the Fund.

Notes to the Financial Statements

Continued

9. UNITHOLDERS' FUNDS

As at 31 March 2011 there were 62,105,677 (Mar 2010: 52,455,947) units on issue. Due to the requirement of NZ IFRS and IFRS, there are differences between the valuation of investments for the purposes of determining the net asset value and for the purposes of determining the value of financial assets in the financial statements.

For the purposes of determining the net asset value, quoted investment positions are valued at last traded market prices on the relevant trading day in accordance with the Fund's offering documents and Trust Deed. The valuation does not include unsettled trades. The net asset value of each unit at 31 March 2011 was \$1.3374 (Mar 2010: \$1.3346).

NZ IFRS requires that long quoted investment positions be valued at the closing bid prices (excluding provision for disposal costs) on the relevant trading day. The NZ IFRS net asset value of each unit at 31 March 2011 was \$1.3353 (Mar 2010: \$1.3350).

10. FAIR VALUE

Financial instruments can be categorised across the following 3 levels based on the degree to which their fair value is 'observable':

Level 1 – Fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Fair value measurements are derived from inputs other than quoted prices included within level 1 that are observable either directly or indirectly;

Level 3 – Fair value measurements are derived from valuation methods that include inputs that are not based on observable market data.

All financial instruments of the Fund have been categorised as level 1 in the hierarchy. There were no transfers between levels in the period ended 31 March 2011.

11. EVENTS AFTER THE BALANCE SHEET DATE

There are no known events after balance date.

12. CONTINGENT LIABILITIES

There are no known contingent liabilities as at balance date (Mar 2010: nil).

13. ISSUED BUT NOT YET EFFECTIVE ACCOUNTING STANDARDS

NZ IFRS 7 Financial Instrument has the following amendments:

- ▶ Amended and removed existing disclosure requirements and requires that qualitative disclosure should be made in relation to the quantitative disclosure to better enable users to evaluate an entity's exposure to risks arising from financial instruments. The impact of this change has not yet been determined.

NZ IFRS 9 Financial Instruments has the following amendments:

- ▶ Simplifies the mixed measurement model and establishes amortised cost and fair value categories for financial assets. The basis of classification depends on the business model of the entity and the contractual cash flow characteristics of the financial asset.
- ▶ Measurements and classification requirements of financial liabilities remain unchanged, except fair value option and certain derivatives linked to unquoted equity instruments.

The impact of any changes has not yet been determined

There are a number of other issued but not yet effective standards that the Fund has assessed as having either no impact or the impact has yet to be determined.

Unitholder Information

DISTRIBUTION OF SECURITY HOLDERS AND SECURITY HOLDINGS AS AT 31 MARCH 2011

	No. of holders	% of holders	No. of securities	% of securities
1 to 1,000	286	10.14%	99,888	0.16%
1,001 to 5,000	1,106	39.22%	3,273,137	5.27%
5,001 to 10,000	655	23.23%	4,716,484	7.59%
10,001 to 100,000	747	26.49%	16,704,750	26.90%
100,000 and above	26	0.92%	37,311,418	60.08%
Total	2,820	100.00%	62,105,677	100.00%

20 LARGEST REGISTERED HOLDERS OF QUOTED EQUITY SECURITIES AS AT 31 MARCH 2011

Full Name	Total	Percentage
Investment Custodial Services Limited (C A/C)	16,923,787	27.25%
NZGT Superannuation Trustees Limited (Smartkiwi Growth Fund A/C)	5,572,011	8.97%
FNZ Custodians Limited	3,540,577	5.70%
Investment Custodial Services Limited (R A/C)	2,771,167	4.46%
Stephen Lawrence Brownlie & Robert Johnston (Stephen Brownlie Family Ac)	1,901,198	3.06%
NZGT Superannuation Trustees Limited (Smartkiwi Balanced Fund A/C)	1,218,745	1.96%
New Zealand Central Securities Depository Limited (Supplementary Div Cash A/C)	1,074,375	1.73%
J P Morgan Chase Bank N A (1563-0001 A/C)	681,500	1.10%
UBS New Zealand Limited	466,348	0.75%
HSBC Nominees (New Zealand) Limited (040-022709-100 A/C)	378,800	0.61%
Custodial Services Limited (3 A/C)	312,170	0.50%
Mohua Limited	297,677	0.48%
Custodial Services Limited (2 A/C)	284,778	0.46%
NZGT Superannuation Trustees Limited (Smartkiwi Conservative Fund A/C)	281,492	0.45%
Tamaoho Waaka Vercoe, Charles Ohaki Elliott & Beverley Nawarihi Hughes (Putauaki A/C)	186,872	0.30%
HSBC Nominees (New Zealand) Limited (003-040813-230 A/C)	180,000	0.29%
HSBC Nominees (New Zealand) Limited (04-025173-100 A/C)	159,150	0.26%
Trevor Paul Fitzjohn & John Livingston Marshall	149,173	0.24%
Oceanpro Holdings Limited	140,867	0.23%
Joan Cann & Stuart Raymond Cann (NS & J Cann A/C)	122,928	0.20%
	36,643,615	59.00%

Unitholder Information

Continued

SUBSTANTIAL SECURITY HOLDERS

The following information is given pursuant to section 35F of the Securities Markets Act 1988. According to the file kept by the Fund under section 35C of the Securities Market Act 1988, as at 31 March 2011 substantial holders in the Fund were Investment Custodial Services Limited (C A/C) with 16,923,787 units, NZGT Superannuation Trustees Limited (Smartkiwi Growth Fund A/C) with 5,572,011 units and FNZ Custodians Limited with 3,540,577 units. The total number of units on issue at 31 March 2011 was 62,105,677.

DIRECTORS' INTERESTS IN UNITS AS AT 31 MARCH 2011

	Beneficial	Non-Beneficial
Geoffrey Brown (resigned 21 May 2010)	-	-
Fiona Mackenzie (appointed 14 September 2009)	-	-
Damas Potoi (resigned 6 April 2010)	-	-
Garth Taylor (appointed 6 April 2010, resigned 9 November 2010)	4,155	-
Rowan Macrae (appointed 21 May 2010)	14,781	-
Helena Lewis (appointed 9 November 2010)	1,850	-

WAIVERS GRANTED

The Special Division of New Zealand Markets Disciplinary Tribunal (formerly NZX Discipline) has granted, either fully, partially or subject to conditions, the following waivers from the Listing Rules that were applicable at 31 March 2011:

- 1.9.1 – provisions of Rules applying to Equity Securities.
- 3.1.1(a) – compliance with the Listing Rules
- 3.1.3 – Compliance with the provisions in Appendix 6.
- 3.3.1(c) to 3.3.1C, 3.6.2(a) and 3.6.2(c) – Requirements for an Audit Committee and Independent Directors.
- 3.3.2 to 3.3.12 – Appointment and Rotation of Directors.
- 3.4 – Proceedings and Power of Directors
- 3.5 – Directors' remuneration.
- Section 4 and 3.1.1(b) – Takeover Provisions.
- 7.1.7 – Regulation 23 statements for Offering Documents.
- 7.1.11 – Minimum Subscription.
- 7.3 – Issues of Securities.
- 7.4 – Entitlements to Third Parties.
- 7.5 – Issues and Redemptions affecting Control.
- 7.6.1 to 7.6.3 – Buybacks and Redemptions.
- 7.11.1 – Time for Allotment.
- 7.12.2 – Notification of event affecting Securities.
- 8.2.1 to 8.2.3 – Lien on Distributions.
- 8.3.1 – Ruling in relation to Interest Groups.
- 9.1.1(b) – Disposition or acquisition of assets.
- 9.2.1(a) – Material Transactions with Related Parties.
- 10.4.2, 10.5.1(b) – Contents required for Preliminary Announcement and Annual Report.
- 10.5.2 – Half-yearly reporting requirements.
- 10.8.1(a) – Notification of subdivision, consolidation or issue of securities.
- 11.1.1 – Restrictions on Transfers.
- 11.1.5 – Approval for restrictions in Trust Deed.
- 11.2.3 – Statements after Issues or Transfers.
- Appendix 2 – Minimum Holding.



Independent Auditor's Report

Independent Auditor's Report

To the Unitholders of NZX 50 Portfolio Index Fund

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of NZX 50 Portfolio Index Fund ("the Fund") on pages 38 to 48. The financial statements comprise the statement of financial position as at 31 March 2011 and the statements of comprehensive income, changes in net assets attributable to unitholders and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Manager's Responsibility for the Financial Statements

The Manager is responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards that give a true and fair view of the matters to which they relate, and for such internal control as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other than in our capacity as auditors we have no relationship with, or interests in, the Fund.

Opinion

In our opinion the financial statements of NZX 50 Portfolio Index Fund on pages 38 to 48:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the Fund as at 31 March 2011 and of its financial performance and cash flows for the year ended on that date.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by NZX 50 Portfolio Index Fund as far as appears from our examination of those records.

27 May 2011

Wellington

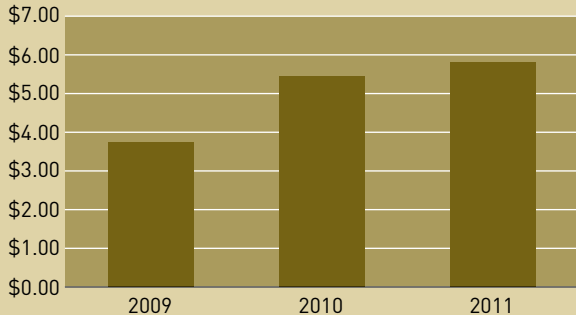
NZX Australian MIDCAP Index Fund (smartMOZY)

Performance for the Financial Year ended 31 March 2011

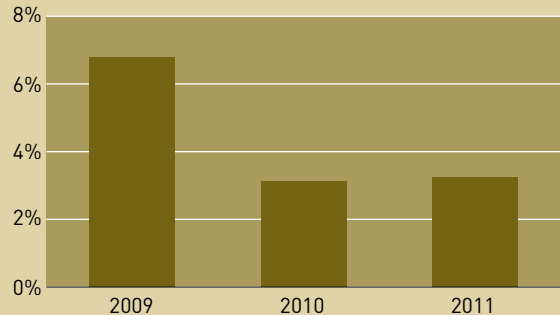
HIGHLIGHTS

	March 2011	March 2010
NTA	\$5.811	\$5.490
Price	\$5.800	\$5.450
Price (Discount)/Premium to NTA	\$(0.011)	\$(0.040)
Full Year Dividend*	\$0.186	\$0.174
Gross Dividend Yield*	3.23%	3.12%
Gross Return*		
- 1yr	8.14%	48.76%
- Annualised since Inception	9.76%	10.21%
Funds Under Management	\$57,239,724	\$55,185,070

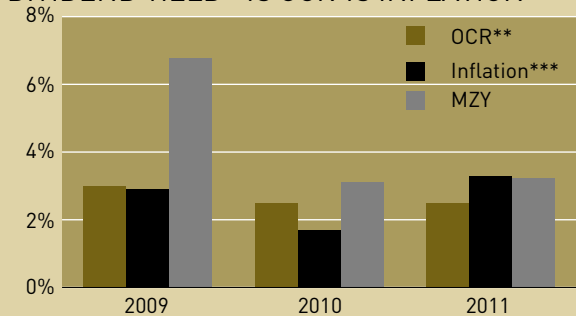
SHARE PRICE



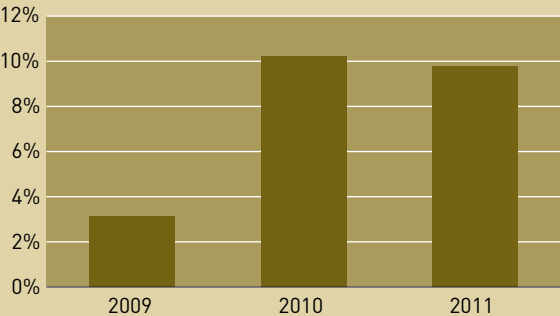
GROSS DIVIDEND YIELD*



DIVIDEND YIELD* vs OCR vs INFLATION



GROSS RETURNS* SINCE INCEPTION



* Change in fund structure from 01 April 2010 means that 2011 figures are shown net of management fees whilst all prior years are gross of management fees

** Official Cash Rate sourced from RBNZ

*** Inflation data sourced from the RBNZ (Weighted Median Y/Y%)



NZX Australian Midcap Index Fund

Report to Unitholders



Financial Statements

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2011

	Note	2011 \$000	2010 \$000
INCOME			
Dividends		2,392	1,713
Net changes in fair value of financial assets		2,395	18,384
Total Net Income		4,787	20,097
EXPENSES			
Management fees	7	377	368
Foreign exchange gain/(loss)		25	-
Total Expenses		402	368
Net Profit/(Loss) before Tax		4,385	19,729
Tax expense	4	486	459
Net Profit/(Loss) after Tax		3,899	19,270

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS FOR THE YEAR ENDED 31 MARCH 2011

	Note	2011 \$000	2010 \$000
Opening Net assets attributable to Unitholders		55,651	35,361
Net Profit/(Loss) after tax		3,899	19,270
Net subscriptions allotted	5	(759)	1,906
Distribution to Unitholders	6	(1,438)	(886)
Closing Net Assets Attributable to Unitholders		57,353	55,651

These financial statements should be read in conjunction with the notes on pages 57-64

BALANCE SHEET
AS AT 31 MARCH 2011

	Note	2011 \$000	2010 \$000
CURRENT ASSETS			
Cash at call		1,376	538
Accounts receivable		376	362
Other current assets	7	30	-
Total Current Assets		1,782	900
NON-CURRENT ASSETS			
Investments in equity securities held at fair value	8	57,183	55,651
Total Non-Current Assets		57,183	55,651
Total Assets		58,965	56,551
CURRENT LIABILITIES			
Management fees payable	7	38	35
Funds held for unit purchases		80	122
Distribution payable to Unitholders	6	1,228	600
Taxation payable		161	43
Total Current Liabilities		1,507	800
NON-CURRENT LIABILITIES			
Deferred tax	4	105	100
Total Non-Current Liabilities		105	100
Total Liabilities		1,612	900
Net Assets Attributable to Unitholders		57,353	55,651

These financial statements should be read in conjunction with the notes on pages 57-64

The Board of Directors of Smartshares Limited authorised these financial statements for issue on 27 May 2011.



F MACKENZIE CHAIRMAN
SMARTSHARES LIMITED



R MACRAE DIRECTOR
SMARTSHARES LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2011

	Note	2011 \$000	2010 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Dividends received		2,378	1,727
Cash inflows from operating activities		2,378	1,727
CASH WAS APPLIED TO:			
Management fees paid		(375)	(386)
Taxation paid		(368)	(343)
Cash outflows from operating activities		(743)	(729)
Net Cash Flows from Operating Activities		1,635	998
CASH FLOWS FROM INVESTING ACTIVITIES			
Net repayments to Fund Manager		26	(58)
Cash inflow/(outflows) from investing activities		26	(58)
Net Cash Flows from Investing Activities		26	(58)
CASH FLOWS FROM FINANCING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Savings plan & direct purchase deposits		2,816	3,242
Proceeds from sale of investments	6	-	161
Cash inflows from financing activities		2,816	3,403
CASH WAS APPLIED TO:			
Purchase of financial assets		(2,754)	(3,289)
Distributions paid to Unitholders	6	(358)	(362)
Distributions paid for dividend reinvestment	6	(505)	(485)
Cash outflows from financing activities		(3,617)	(4,136)
Net Cash Flows from Financing Activities		(801)	(733)
Net increase/(decrease) in cash held		860	207
Effect of Exchange rate fluctuations on cash and cash equivalents		(22)	-
Opening cash balance		538	331
Cash at End of Period		1,376	538
RECONCILIATION OF NET PROFIT / (LOSS) AFTER TAX WITH NET CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit/(loss) after tax		3,899	19,270
LESS NON-CASH ITEMS:			
Net changes in fair value of financial assets		(2,395)	(18,384)
Operating movement in taxation payable		118	120
Movement in deferred tax		5	(4)
Effect of exchange rate fluctuations on cash and cash equivalents		22	-
Movement in management fees payable		2	12
Movement in accounts receivable		(16)	(16)
Net Cash Flows from Operating Activities		1,635	998

These financial statements should be read in conjunction with the notes on pages 57-64

Notes to the Financial Statements

1. GENERAL INFORMATION

The NZX Australian Midcap Index Fund (the 'Fund') is a for-profit open-ended 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 (the 'Act') and these financial statements are presented in compliance with the Act. The Fund holds a portfolio of marketable securities for the long term as an investment vehicle for individual Unitholders. Distributions are confined only to dividends received from the portfolio of investments less expenses paid. All changes in the value of investments, both realised and unrealised are recorded in the Statement of Comprehensive Income.

The Fund's investment activities are managed by Smartshares Limited (the 'Investment Manager'), tracking the ASX S&P Australian Midcap Index (the 'Index'). As prescribed by the Trust Deed, the Fund only invests in the securities included in the Index in proportion to the market capitalisation of the Index and the available capital of the Fund. The Fund's units are listed and traded on the NZX Main Board. Investments are valued at fair value according to last bid prices on the Australian Exchange on 31 March 2011 (see Note 8).

2. STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 BASIS OF PREPARATION

The financial statements of the Fund have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'), being the New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS'). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss. The functional currency of this entity is the same as the presentation currency of these financial statements, being the New Zealand Dollar ('NZD'), rounded to the nearest thousand.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Smartshares Board of Directors to exercise its judgement in the process of applying the Fund's accounting policies.

2.2 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(a) Classification

The Fund classifies its investments in equity securities held at fair value as financial assets at fair value through profit or loss. These financial assets are designated by the Smartshares Board of Directors at inception as their performance is managed and evaluated on a fair value basis in accordance with a documented investment strategy.

(b) Recognition/derecognition

Regular purchases and sales of investments are recognised on the trade date – the date on which the Fund commits to purchase or sell the investment. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

(c) Measurement

Financial assets at fair value through profit or loss are recognised at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the profit or loss in the Statement of Comprehensive Income when they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the profit or loss in the Statement of Comprehensive Income within dividend income when the Fund's right to receive payment is established.

(d) Fair value estimation

The fair value of the financial instruments is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Fund is the last bid price.

Notes to the Financial Statements

Continued

2.3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are 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.

2.4 UNITS

The Fund issues units, which provide the holder with a residual interest in the Fund. The unit is carried at the proportion of the Fund's net asset value at the balance sheet date. The units can be put back to the Fund at any time, in accordance with the redemption rules as defined in the prospectus, for securities of the constituent companies in proportion to the Index and of a proportion of cash held in the Fund.

The units are issued and redeemed at the Unitholder's option at prices based on the Fund's net asset value per unit at the time of issue or redemption. The Fund's net asset value per unit is calculated by dividing the net assets attributable to the Unitholders by the total number of outstanding units. In accordance with the provisions of the Trust Deed investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit for subscriptions and redemptions.

Unitholders' funds are classified as equity instruments.

2.5 DIVIDEND INCOME

Dividend income is recognised when the right to receive payment is established.

2.6 DISTRIBUTIONS PAYABLE TO HOLDERS OF UNITS

Income from investments held is attributed to Unitholders on the basis of the number of units held at the entitlement date of the Unitholder distribution. Proposed distributions to Unitholders are recognised when they become payable as outlined in the Trust Deed.

Distributions are made on 20 April (record date 31 March) and 20 October (record date 30 September).

2.7 TAXATION

The Fund is domiciled in New Zealand and is registered as a Portfolio Investment Entity ('PIE').

The Fund is liable for tax at the prevailing company tax rate on taxable dividends (excluding dividends from entities subject to the Fair Dividend Rate method ('FDR')) from the entities listed in Note 8 after the deduction of management fees. 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. For securities subject to FDR, the Fund is liable for tax based on the market value of the security. All distributions to Unitholders are imputed to the extent permitted by the imputation credits that the directors of the entity determine are available.

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.8 CHANGES IN ACCOUNTING POLICIES

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

2.9 CHANGES IN THE FUND OPERATIONAL STRUCTURE

Discontinuation of Unitholder Distribution Account

The Manager has discontinued the use of Unitholder Distribution Accounts ('UDAs'). From 1 April 2010, income and expenses of the Fund are retained in the Fund itself and are subsequently reflected in the unit price.

The Fund will continue to make six-monthly distributions to Unitholders, with each Unitholder's entitlement based on their holding as at the record date for that distribution.

Unless a Unitholder elects to receive their share of a distribution in cash, their portion is automatically reinvested and the Unitholder is issued with additional units to the same value, rounded down to the nearest whole unit.

Calculation of the Net Asset Value (NAV)

Discontinuation of the use of UDAs has allowed the Fund to move to an "accrual-based" model for calculating the Fund's NAV, which is the basis for its unit pricing. The move to an accrual-based model means that the NAV per unit now includes both the value of the underlying securities held in the Fund, and the Fund's other assets and liabilities, including but not limited to: accrued dividends, accrued management fees and tax.

Distributions

From 1 April 2010, Unitholder's distribution entitlements are determined based on whether the Unitholder holds units at the record date set for the Fund's six-monthly distribution. Distribution rates per unit are the same for all investors within the Fund.

The Manager may, at its discretion, deduct from any distribution an amount of cash if the Manager reasonably considers that such a deduction is required to meet any liabilities that become payable in a future distribution period.

Change to Distribution Cycle

The Fund distribution dates have changed to align with the standard distribution cycles of New Zealand funds. From 1 April 2010 distributions will be made directly from the Fund within 20 business days after the last business day of March and September.

Management Fees Calculation

From 1 April 2010 the Manager ceased charging management fees to UDAs, with the fees now charged to the Fund directly. Accordingly, management fees are reflected in the unit price. No investor is charged management fees at a higher rate under the new structure. The management fee is calculated daily as a percentage of the NAV of the Fund.

From 1 April 2010 the management fees in the Financial Statements have been recorded at a gross level and do not include rebates provided to large Unitholders by the Manager.

3. FINANCIAL RISK MANAGEMENT

The Fund's activities expose it to a variety of financial risks: market risk, credit risk, currency risk and liquidity risk. The Fund does not have exposure to interest rate risk.

3.1 MARKET PRICE RISK

The Fund's equity securities are susceptible to market price risk arising from uncertainties about future prices of the financial instruments. The market exposures are outlined in Note 8. The Fund's market risk is affected by actual changes in market prices. As this Fund tracks an index, any change in the underlying index will result in a corresponding change in the assets at fair value through profit or loss. In accordance with the terms of the Trust Deed the Fund Manager does not manage this risk.

Notes to the Financial Statements

Continued

3.2 CREDIT RISK

The Fund is exposed to credit risk, 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 subject the Fund to credit risk consist primarily of cash, accounts receivable and investments in equity securities held at fair value. The maximum credit risk of financial instruments is considered to be fair 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:

	Mar 2011 \$000	Mar 2010 \$000
Cash	1,376	538
Accounts receivable	376	362
Other current assets	30	-
Investments	57,183	55,651

3.3 LIQUIDITY RISK

The Fund's listed securities are considered readily realisable, as they are listed on the Australian Exchange.

3.4 CURRENCY RISK

The Fund holds assets denominated in a currency other than the New Zealand dollar, the functional currency. It is therefore exposed to currency risk, as the value of the securities denominated in Australian dollars will fluctuate due to changes in the exchange rate. The Fund's policy is not to enter into any currency hedging transactions.

The table below summarises the Fund's exposure to currency risks.

NZD CONCENTRATION OF ASSETS AND LIABILITIES UNDER AUD DOLLARS

	Mar 2011 \$000	Mar 2010 \$000
ASSETS		
Investments in equity securities held at fair value	57,183	55,651
Australian dollar cash held (NZD)	172	-

4. TAXATION

	Year Ended Mar 2011 \$000	Year Ended Mar 2010 \$000
INCOME TAX EXPENSE		
Net profit/(loss) before tax	4,385	19,729
Add back management fees	-	368
Add back decrease/(increase) in net changes in fair value of financial assets	(2,395)	(18,384)
Gross up of FWT withheld on dividends	21	12
Dividends subject to FDR regime	(690)	(580)
Taxable income on FDR securities	699	700
Gross up of imputation credits	10	26
Taxable income	2,030	1,871
Taxation at 30%	609	561
Less tax credits & imputation credits	(88)	(102)
Prior period adjustment	(27)	-
Effect of tax rate change	(8)	-
Tax expense	486	459
DEFERRED TAX		
Opening balance	(100)	(104)
Effect of tax rate change	8	-
Current year movement	(13)	4
Closing balance	(105)	(100)
IMPUTATION CREDITS		
Opening balance	424	1,051
Imputation credits received during the period	-	26
Net tax paid during the period	314	30
	738	1,107
Credits attached to distributions paid	(331)	(201)
Prior period adjustment	55	(482)
Closing balance	462	424
DIVIDEND WITHHOLDING PAYMENT CREDITS		
Opening balance	3	2
Net tax paid during the period	49	314
	52	316
Prior period adjustment	6	-
Credits attached to distributions paid	(44)	(313)
Closing balance	14	3

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by New Zealand corporate entities on taxable profits under New Zealand tax law. There has been a change in the corporate tax rate from 30% to 28% from 1 April 2011. The deferred tax balance at 31 March 2011 is calculated using the new corporate tax rate, and the adjustment above shows the effect of the change in rate of deferred tax.

Notes to the Financial Statements

Continued

5. UNITS

All issued units are fully paid and redeemable, and have been admitted to the official listing of the NZX Main Board. The Fund's net assets attributable to Unitholders are represented by these units. The Fund has no restrictions or specific capital requirements on the subscriptions and redemptions of units, other than minimum holding requirements as defined in the prospectus. The relevant movements are shown on the Statement of Changes in Net Assets Attributable to Unitholders.

6. DISTRIBUTION TO UNITHOLDERS

	Total attributed to Unitholders Mar 2011 \$000	Total attributed to Unitholders Mar 2010 \$000
Opening Distribution payable	600	400
Distribution accrued to Unitholders	1,438	886
	2,038	1,286
Distributed to Unitholders	(810)	(847)
Transfers	-	161
Closing Distribution payable	1,228	600

7. RELATED PARTIES

The Fund is managed by Smartshares Limited (the 'Manager'), a wholly owned subsidiary of NZX Limited. Smartshares Limited receives management fees from the Fund. Under the Trust Deed the Manager pays the Trustee, Custodian, Registrar and Auditor in respect of the Fund and receives all basket application and withdrawal fees and interest earned on cash at call. Total gross management fees for the year to 31 March 2011 amounted to \$377,000 (Mar 2010 \$368,000, rebates not applicable), with \$38,000 (Mar 2010: \$35,000) outstanding accrued fees due to Smartshares Limited at the end of the period. At 31 March 2011 the Fund has receivables from Smartshares Limited of \$30,000 (Mar 2010 \$nil).

The audit fee paid by the Manager for the audit of the Fund for the year to 31 March 2011 was \$3,000 (2010: \$4,000).

8. INVESTMENTS IN EQUITY SECURITIES HELD AT FAIR VALUE AS AT 31 MARCH 2011

Company	Number of Securities	Fair Value A\$	Fair Value NZ\$
Atlas Iron Limited	238,743	888,124	1,201,792
Aristocrat Leisure Limited	147,503	470,535	636,718
Ansell Limited	46,411	627,477	849,089
APA Group	158,458	665,524	900,573
Aquarius Platinum Limited	134,860	721,501	976,321
Billabong International	71,208	536,908	726,534
Bendigo & Adelaide Bank Limited	119,973	1,134,945	1,535,784
Boral Limited	245,527	1,227,635	1,661,211
Boart Longyear Limited	158,002	734,709	994,194
Bank of Queensland	75,392	746,381	1,009,988
ConnectEast Group	1,349,974	607,488	822,041
Challenger Financial Services Group Limited	159,737	781,114	1,056,988
Cochlear Limited	19,371	1,604,887	2,171,701

8. INVESTMENTS IN EQUITY SECURITIES HELD AT FAIR VALUE AS AT 31 MARCH 2011 (cont)

Company	Number of Securities	Fair Value A\$	Fair Value NZ\$
Commonwealth Property Office Fund	839,283	721,783	976,703
Charter Hall Office Reit	140,842	464,779	628,929
CSR Limited	176,825	579,986	784,825
Caltex Australia Limited	46,254	720,637	975,152
David Jones Limited	171,535	789,250	1,067,997
Downer EDI Limited	141,793	533,142	721,437
DUET Group	282,363	465,899	630,445
DEXUS Property Group	1,657,948	1,400,966	1,895,759
Equinox Minerals Limited	112,146	629,139	851,338
Fairfax Media Limited	704,187	904,880	1,224,466
Goodman Fielder Ltd	453,972	556,116	752,525
Goodman Group	2,361,758	1,617,804	2,189,180
Harvey Norman Holdings	195,859	571,908	773,895
Iluka Resources Limited	143,379	1,895,470	2,564,913
Investa Office Fund	970,272	596,717	807,466
JB Hi-Fi Limited	37,017	744,412	1,007,323
James Hardie Industries	148,337	904,856	1,224,433
Lynas Corporation Limited	569,606	1,275,917	1,726,546
MacArthur Coal Limited	49,815	576,360	779,918
Metcash Limited	263,013	1,088,874	1,473,442
Myer Holdings Limited	199,240	635,576	860,048
Onesteel Limited	454,263	1,108,402	1,499,867
OZ Minerals Limited	1,109,592	1,764,251	2,387,349
Paladin Energy Limited	266,372	956,275	1,294,013
Perpetual Limited	14,549	420,466	568,966
Primary Health Care Limited	152,142	502,069	679,389
QR National Limited	551,756	1,848,383	2,501,194
Ramsay Health Care Limited	44,173	833,986	1,128,533
Riversdale Mining Limited	51,038	838,554	1,134,715
Resmed Inc	236,358	683,075	924,323
Seek Limited	111,885	740,679	1,002,272
Sims Group Limited	55,342	960,737	1,300,050
Spark Infrastructure Group	405,533	450,142	609,123
Transfield Services Limited	158,870	529,037	715,882
Tatts Group Limited	436,202	1,016,351	1,375,305
United Group Limited	56,093	879,538	1,190,174
West Australian Newspapers Holdings Limited	57,543	304,402	411,911
		42,258,045	57,182,740

All financial assets are designated at inception as being at fair value through profit or loss. The fair value of financial assets is calculated using the last bid price on the relevant trading day. The fair value of financial assets held at 31 March 2011 was A\$42,258,045 (Mar 2010: A\$43,123,590) where the New Zealand dollar equivalent was NZ\$57,182,740 (Mar 2010: NZ\$55,650,523), the exchange rate used was \$0.7390 (Mar 2010: 0.7749). The investments are registered in the name of JB Were (NZ) Nominees Limited, the Custodian of the Fund.

Notes to the Financial Statements

Continued

9. UNITHOLDERS' FUNDS

As at 31 March 2011 there were 9,868,918 (Mar 2010: 10,125,701) units on issue. Due to the requirements of NZ IFRS and IFRS, there are differences between the valuation of investments for the purposes of determining the net asset value and for the purposes of determining the value of financial assets in the financial statements.

For the purposes of determining the net asset value, quoted investment positions are valued at last traded market prices on the relevant trading day in accordance with the Fund's offering documents and Trust Deed. The valuation does not include unsettled trades. The net asset value of each unit at 31 March 2011 was \$5.8759 (Mar 2010: \$5.4901).

NZ IFRS and IFRS requires that long quoted investment positions be valued at the closing bid prices (excluding provision for disposal costs) on the relevant trading day. The NZ IFRS net asset value of each unit at 31 March 2011 was \$5.8379 (Mar 2010: \$5.4960).

10. FAIR VALUE

Financial instruments can be categorised across the following 3 levels based on the degree to which their fair value is 'observable':

Level 1 – Fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Fair value measurements are derived from inputs other than quoted prices included within level 1 that are observable either directly or indirectly;

Level 3 – Fair value measurements are derived from valuation methods that include inputs that are not based on observable market data.

All financial instruments of the Fund have been categorised as level 1 in the hierarchy. There were no transfers between levels in the period ended 31 March 2011.

11. EVENTS AFTER THE BALANCE SHEET DATE

There were no events after balance date.

12. CONTINGENT LIABILITIES

There are no known contingent liabilities as at balance date (Mar 2010: nil).

13. ISSUED BUT NOT YET EFFECTIVE ACCOUNTING STANDARDS

NZ IFRS 7 Financial Instrument has the following amendments:

- ▶ Amended and removed existing disclosure requirements and requires that qualitative disclosure should be made in relation to the quantitative disclosure to better enable users to evaluate an entity's exposure to risks arising from financial instruments. The impact of this change has not yet been determined.

NZ IFRS 9 Financial Instruments has the following amendments:

- ▶ Simplifies the mixed measurement model and establishes amortised cost and fair value categories for financial assets. The basis of classification depends on the business model of the entity and the contractual cash flow characteristics of the financial asset.
- ▶ Measurements and classification requirements of financial liabilities remain unchanged, except fair value option and certain derivatives linked to unquoted equity instruments.

The impact of any changes has not yet been determined

There are a number of other issued but not yet effective standards that the Fund has assessed as having either no impact or the impact has yet to be determined.

Unitholder Information

DISTRIBUTION OF SECURITY HOLDERS AND SECURITY HOLDINGS AS AT 31 MARCH 2011

	No. of holders	% of holders	No. of securities	% of securities
1 to 1,000	811	32.30%	391,591	3.97%
1,001 to 5,000	1,303	51.89%	3,029,356	30.70%
5,001 to 10,000	254	10.12%	1,689,971	17.12%
10,001 to 100,000	136	5.42%	2,750,864	27.87%
100,000 and above	7	0.28%	2,007,136	20.34%
Total	2,511	100.00%	9,868,918	100.00%

20 LARGEST REGISTERED HOLDERS OF QUOTED EQUITY SECURITIES AS AT 31 MARCH 2011

Full Name	Total	Percentage
NZGT Superannuation Trustees Limited (Smartkiwi Growth Fund A/C)	841,751	8.53%
Custodial Services Limited (3 A/C)	375,944	3.81%
NZGT Superannuation Trustees Limited (Smartkiwi Balanced Fund A/C)	213,705	2.17%
Custodial Services Limited (2 A/C)	156,776	1.59%
FNZ Custodians Limited	156,370	1.58%
Custodial Services Limited (18 A/C)	137,337	1.39%
Investment Custodial Services Limited (C A/C)	125,253	1.27%
FNZ Custodians Limited (DRP NZ A/C)	89,995	0.91%
Craigs Investment Partners Limited	86,723	0.88%
Forsyth Barr Custodians Limited (1-33 A/C)	85,347	0.86%
Forsyth Barr Custodians Limited (1-17.5 A/C)	83,829	0.85%
Custodial Services Limited (4 A/C)	73,912	0.75%
Flora Fitzherbert Rudman	52,626	0.53%
Forsyth Barr Custodians Limited (1-30 A/C)	47,690	0.48%
Elwyn Dianne Mayall	45,984	0.47%
Custodial Services Limited (10 A/C)	45,291	0.46%
Custodial Services Limited (8 A/C)	44,848	0.45%
Tamaoho W Vercoe & Charles O Elliott & Beverley N Hughes (Putauaki A/C)	41,796	0.42%
Gavin R Walker & Susan E Walker & William M Patterson (Tralee A/C)	38,320	0.39%
Gavin R Walker & Susan E Walker & William M Patterson (Waiata A/C)	38,320	0.39%
Christopher Graham Paice	34,451	0.35%
	2,816,268	28.53%

Unitholder Information

Continued

SUBSTANTIAL SECURITY HOLDERS

The following information is given pursuant to section 35F of the Securities Markets Act 1988. According to the file kept by the Fund under section 35C of the Securities Market Act 1988 as at 31 March 2011 NZGT Superannuation Trustees Limited (smartkiwi Growth Fund A/C) was a substantial holder in the Fund with 841,751 units. The total number of units on issue at 31 March 2011 was 9,868,918.

DIRECTORS' INTERESTS IN UNITS AS AT 31 MARCH 2011

	Beneficial	Non-Beneficial
Geoffrey Brown (resigned 21 May 2010)	-	-
Damas Potoi (resigned 6 April 2010)	-	-
Fiona Mackenzie (appointed 14 September 2009)	-	-
Garth Taylor (appointed 6 April 2010, resigned 9 November 2010)	1,040	-
Rowan Macrae (appointed 21 May 2010)	-	-
Helena Lewis (appointed 9 November 2010)	-	-

WAIVERS GRANTED

The Special Division of New Zealand Markets Disciplinary Tribunal (formerly NZX Discipline) has granted, either fully, partially or subject to conditions, the following waivers from the Listing Rules that were applicable at 31 March 2011:

- 1.9.1 – provisions of Rules applying to Equity Securities.
- 3.1.1(a) – compliance with the Listing Rules
- 3.1.3 – Compliance with the provisions in Appendix 6.
- 3.3.1(c) to 3.3.1C, 3.6.2(a) and 3.6.2(c) – Requirements for an Audit Committee and Independent Directors.
- 3.3.2 to 3.3.12 – Appointment and Rotation of Directors.
- 3.4 – Proceedings and Power of Directors
- 3.5 – Directors' remuneration.
- Section 4 and 3.1.1(b) – Takeover Provisions.
- 7.1.7 – Regulation 23 statements for Offering Documents.
- 7.1.11 – Minimum Subscription.
- 7.3 – Issues of Securities.
- 7.4 – Entitlements to Third Parties.
- 7.5 – Issues and Redemptions affecting Control.
- 7.6.1 to 7.6.3 – Buybacks and Redemptions.
- 7.11.1 – Time for Allotment.
- 7.12.2 – Notification of event affecting Securities.
- 8.2.1 to 8.2.3 – Lien on Distributions.
- 8.3.1 – Ruling in relation to Interest Groups.
- 9.1.1(b) – Disposition or acquisition of assets.
- 9.2.1(a) – Material Transactions with Related Parties.
- 10.4.2, 10.5.1(b) – Contents required for Preliminary Announcement and Annual Report.
- 10.5.2 – Half-yearly reporting requirements.
- 10.8.1(a) – Notification of subdivision, consolidation or issue of securities.
- 11.1.1 – Restrictions on Transfers.
- 11.2.3 – Statements after Issues or Transfers.
- 11.1.5 – Approval for restrictions in Trust Deed.
- Appendix 2 – Minimum Holding.



Independent Auditor's Report

To the Unitholders of NZX Australian Midcap Index Fund

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of NZX Australian Midcap Index Fund ("the Fund") on pages 54 to 64. The financial statements comprise the statement of financial position as at 31 March 2011 and the statements of comprehensive income, changes in net assets attributable to unitholders and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Manager's Responsibility for the Financial Statements

The Manager is responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards that give a true and fair view of the matters to which they relate, and for such internal control as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other than in our capacity as auditors we have no relationship with, or interests in, the Fund.

Opinion

In our opinion the financial statements of NZX Australian Midcap Index Fund on pages 54 to 64:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the Fund as at 31 March 2011 and of its financial performance and cash flows for the year ended on that date.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by NZX Australian Midcap Index Fund as far as appears from our examination of those records.

27 May 2011

Wellington

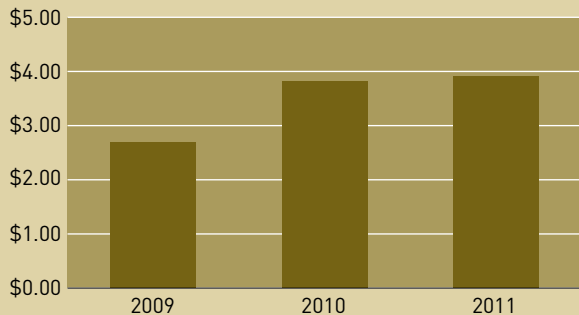
NZX Australian 20 Leaders Index Fund (smartOZZY)

Performance for the Financial Year ended 31 March 2011

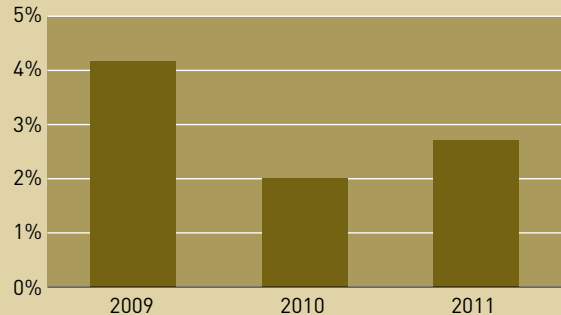
HIGHLIGHTS

	March 2011	March 2010
NTA	\$3.925	\$3.858
Price	\$3.900	\$3.820
Price (Discount)/Premium to NTA	\$(0.025)	\$(0.038)
Full Year Dividend*	\$0.044	\$0.060
Gross Dividend Yield*	2.71%	2.01%
Gross Return*		
- 1yr	3.75%	46.63%
- Annualised since Inception	9.64%	10.10%
Funds Under Management	\$109,362,494	\$111,074,171

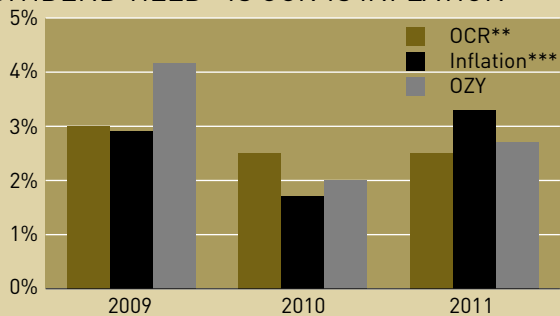
SHARE PRICE



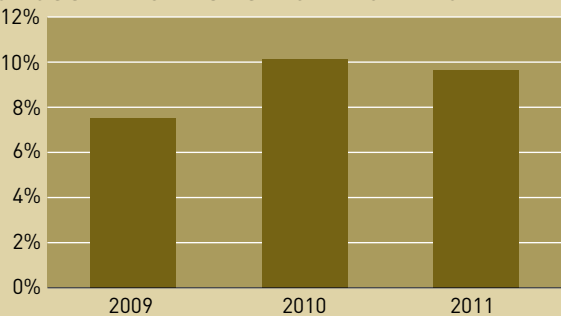
GROSS DIVIDEND YIELD*



DIVIDEND YIELD* vs OCR vs INFLATION



GROSS RETURNS* SINCE INCEPTION



* Change in fund structure from 01 April 2010 means that 2011 figures are shown net of management fees whilst all prior years are gross of management fees

** Official Cash Rate sourced from RBNZ

*** Inflation data sourced from the RBNZ (Weighted Median Y/Y%)



NZX Australian 20 Leaders Index Fund

Report to Unitholders



Financial Statements

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2011

	Note	2011 \$000	2010 \$000
INCOME			
Dividends		4,604	4,104
Other Income		2	-
Net changes in fair value of financial assets		2,547	34,600
Total Net Revenue		7,153	38,704
EXPENSES			
Foreign exchange gain/(loss)		16	-
Management fees	7	630	579
Total Expenses		646	579
Net Profit/(Loss) before Tax		6,507	38,125
Tax expense	4	1,094	1,199
Net Profit/(Loss) after Tax		5,413	36,926

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS FOR THE YEAR ENDED 31 MARCH 2011

	Note	2011 \$000	2010 \$000
Opening Net Assets attributable to Unitholders		111,850	79,744
Net Profit/(Loss) after tax		5,413	36,926
Net subscriptions redeemed	5	(3,979)	(2,494)
Distribution to Unitholders	6	(3,217)	(2,326)
Closing Net Assets Attributable to Unitholders		110,067	111,850

These financial statements should be read in conjunction with the notes on pages 73-80

BALANCE SHEET
AS AT 31 MARCH 2011

	Note	2011 \$000	2010 \$000
CURRENT ASSETS			
Cash at call		2,351	880
Accounts receivable		749	1,074
Taxation receivable		-	79
Total Current Assets		3,100	2,033
NON-CURRENT ASSETS			
Investments in equity securities held at fair value	8	110,035	111,778
Total Non-Current Assets		110,035	111,778
Total Assets		113,135	113,811
CURRENT LIABILITIES			
Taxation payable		7	-
Funds held for unit purchases		63	95
Other current liabilities	7	7	-
Management fees payable	7	56	54
Distribution payable to Unitholders	6	2,725	1,490
Total Current Liabilities		2,858	1,639
NON-CURRENT LIABILITIES			
Deferred tax	4	210	322
Total Non-Current Liabilities		210	322
Total Liabilities		3,068	1,961
Net Assets Attributable to Unitholders		110,067	111,850

These financial statements should be read in conjunction with the notes on pages 73-80

The Board of Directors of Smartshares Limited authorised these financial statements for issue on 27 May 2011.



F MACKENZIE CHAIRMAN
SMARTSHARES LIMITED



R MACRAE DIRECTOR
SMARTSHARES LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2011

	Note	2011 \$000	2010 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Dividends received		4,929	3,806
Cash inflows from operating activities		4,929	3,806
CASH WAS APPLIED TO:			
Management fees		(624)	(550)
Tax paid/(received) directly by the Fund	4	(1,119)	(1,280)
Cash outflows from operating activities		(1,743)	(1,830)
Net Cash Flows from Operating Activities		3,186	1,976
CASH FLOWS FROM INVESTING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Net payments made to Fund Manager	7	8	(31)
Cash inflows/(outflows) from investing activities		8	(31)
Net Cash Flows from Investing Activities		8	(31)
CASH FLOWS FROM FINANCING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Savings plan & direct purchase deposits		1,320	3,713
Proceeds from sale of investments	6	-	148
Cash inflows from financing activities		1,320	3,861
CASH WAS APPLIED TO:			
Purchase of financial assets		(1,040)	(3,752)
Distributions paid to Unitholders	6	(1,092)	(1,442)
Distributions paid for dividend reinvestment	6	(884)	(1,103)
Cash outflows from financing activities		(3,016)	(6,297)
Net Cash Flows from Financing Activities		(1,696)	(2,436)
Net increase/(decrease) in cash held		1,498	(491)
Effect of Exchange rate fluctuations on cash and cash equivalents		(27)	-
Opening cash balance		880	1,371
Cash at End of Period		2,351	880
RECONCILIATION OF NET PROFIT / (LOSS) AFTER TAX WITH NET CASH FLOWS FROM OPERATING ACTIVITIES			
Net Profit/(Loss) after tax		5,413	36,926
LESS NON-CASH ITEMS:			
Net changes in fair value of financial assets		(2,547)	(34,600)
Effect of Exchange rate fluctuations on cash and cash equivalents		27	-
Operating movement in taxation receivable/payable		86	(170)
Movement in deferred tax		(112)	89
Movement in management fee payable		2	29
Movement in net payments made to Manager		(8)	-
Movement in accounts receivable		325	(298)
Net Cash Flows from Operating Activities		3,186	1,976

These financial statements should be read in conjunction with the notes on pages 73-80

Notes to the Financial Statements

1. GENERAL INFORMATION

The NZX Australian 20 Leaders Index Fund (the 'Fund') is a for-profit open-ended Group Investment Fund established in New Zealand under the Trustee Companies Act 1967 and a Trust Deed dated 20 January 1997. The Fund is an Issuer as defined in the Financial Reporting Act 1993 (the 'Act') and these financial statements are presented in compliance with the Act. The Fund holds a portfolio of marketable securities for the long term as an investment vehicle for individual Unitholders. Distributions are made up of dividends received from the investments less expenses paid. All changes in the value of investments, both realised and unrealised are recorded in the Statement of Comprehensive Income.

The Fund's investment activities are managed by Smartshares Limited (the 'Investment Manager') tracking the ASX S&P Australian 20 Leaders Index (the 'Index'). As prescribed by the Trust Deed, the Fund only invests in the securities included in the Index in proportion to the market capitalisation of the Index and the available capital of the Fund. The Fund's units are listed and traded on the NZX Main Board. Investments are valued at fair value according to last bid prices on the Australian Exchange on 31 March 2011 (see Note 8).

2. STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'), being the New Zealand equivalents of the Fund to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS'). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss. The functional currency of this entity is the same as the presentation currency of these financial statements, being the New Zealand Dollar ('NZD'), rounded to the nearest thousand.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Smartshares Board of Directors to exercise its judgement in the process of applying the Fund's accounting policies.

2.2 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(a) Classification

The Fund classifies its investments in equity securities held at fair value as financial assets at fair value through profit or loss. These financial assets are designated by the Smartshares Board of Directors at inception as their performance is managed and evaluated on a fair value basis in accordance with a documented investment strategy.

(b) Recognition/derecognition

Regular purchases and sales of investments are recognised on the trade date – the date on which the Fund commits to purchase or sell the investment. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

(c) Measurement

Financial assets at fair value through profit or loss are recognised at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the profit or loss in the Statement of Comprehensive Income when they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the profit or loss in the Statement of Comprehensive Income within dividend income when the Fund's right to receive payment is established.

(d) Fair value estimation

The fair value of the financial instruments is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Fund is the last bid price.

Notes to the Financial Statements

Continued

2.3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are 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 the Unitholders.

2.4 UNITS

The Fund issues units, which provide the holder with a residual interest in the Fund. The unit is carried at the proportion of the Fund's net asset value at the balance sheet date. The units can be put back to the Fund at any time, in accordance with the redemption rules as defined in the prospectus, for securities of the constituent companies in proportion to the Index and of a proportion of cash held in the Fund.

The units are issued and redeemed at the Unitholder's option at prices based on the Fund's net asset value per unit at the time of issue or redemption. The Fund's net asset value per unit is calculated by dividing the net assets attributable to the Unitholders by the total number of outstanding units. In accordance with the provisions of the Trust Deed investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit for subscriptions and redemptions.

Unitholders' funds are classified as equity instruments.

2.5 DIVIDEND INCOME

Dividend income is recognised when the right to receive payment is established.

2.6 DISTRIBUTIONS PAYABLE TO HOLDERS OF UNITS

Income from investments held is attributed to Unitholders on the basis of the number of units held at the entitlement date of the Unitholder distribution. Proposed distributions to Unitholders are recognised when they become payable as outlined in the Trust Deed.

Distributions are made on 20 April (record date 31 March) and 20 October (record date 30 September).

2.7 TAXATION

The Fund is domiciled in New Zealand and is registered as a Portfolio Investment Entity ('PIE').

The Fund is liable for tax at the prevailing company tax rate on taxable dividends (excluding dividends from entities subject to the Fair Dividend Rate method ('FDR')) from the entities listed in Note 8 after the deduction of management fees. 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. For securities subject to FDR, the Fund is liable for tax based on the market value of the security. All distributions to Unitholders are imputed to the extent permitted by the imputation credits that the directors of the entity determine are available.

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.8 CHANGES IN ACCOUNTING POLICIES

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

2.9 CHANGES IN THE FUND OPERATIONAL STRUCTURE

Discontinuation of Unitholder Distribution Account

The Manager has discontinued the use of Unitholder Distribution Accounts ('UDAs'). From 1 April 2010, income and expenses of the Fund are retained in the Fund itself and are subsequently reflected in the unit price.

The Fund will continue to make six-monthly distributions to Unitholders, with each Unitholder's entitlement based on their holding as at the record date for that distribution.

Unless a Unitholder elects to receive their share of a distribution in cash, their portion is automatically reinvested and the Unitholder is issued with additional units to the same value, rounded down to the nearest whole unit.

Calculation of the Net Asset Value (NAV)

Discontinuation of the use of UDAs has allowed the Fund to move to an "accrual-based" model for calculating the Fund's NAV, which is the basis for its unit pricing. The move to an accrual-based model means that the NAV per unit now includes both the value of the underlying securities held in the Fund, and the Fund's other assets and liabilities, including but not limited to: accrued dividends, accrued management fees and tax.

Distributions

From 1 April 2010, Unitholder's distribution entitlements are determined based on whether the Unitholder holds units at the record date set for the Fund's six-monthly distribution. Distribution rates per unit are the same for all investors within the Fund.

The Manager may, at its discretion, deduct from any distribution an amount of cash if the Manager reasonably considers that such a deduction is required to meet any liabilities that become payable in a future distribution period.

Change to Distribution Cycle

The Fund distribution dates have changed to align with the standard distribution cycles of New Zealand funds. From 1 April 2010 distributions will be made directly from the Fund within 20 business days after the last business day of March and September.

Management Fees Calculation

From 1 April 2010 the Manager ceased charging management fees to UDAs, with the fees now charged to the Fund directly. Accordingly, management fees are reflected in the unit price. No investor is charged management fees at a higher rate under the new structure. The management fee is calculated daily as a percentage of the NAV of the Fund.

From 1 April 2010 the management fees in the Financial Statements have been recorded at a gross level and do not include rebates provided to large Unitholders by the Manager.

3. FINANCIAL RISK MANAGEMENT

The Fund's activities expose it to a variety of financial risks: market risk, credit risk, currency risk and liquidity risk. The Fund does not have exposure to interest rate risk.

3.1 MARKET PRICE RISK

The Fund's equity securities are susceptible to market price risk arising from uncertainties about future prices of the financial instruments. The market exposures are outlined in Note 8. The Fund's market risk is affected by actual changes in market prices. As this Fund tracks an index, any change in the underlying index will result in a corresponding change in the assets at fair value through profit or loss. In accordance with the terms of the Trust Deed the Fund Manager does not manage this risk.

Notes to the Financial Statements

Continued

3.2 CREDIT RISK

The Fund is exposed to 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 subject the Fund to credit risk consist primarily of cash, accounts receivable and investments in equity securities held at fair value. The maximum credit risk of financial instruments is considered to be fair 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:

	Mar 2011 \$000	Mar 2010 \$000
Cash	2,351	880
Accounts receivable	749	1,074
Investments in equity securities held at fair value	110,035	111,778

3.3 LIQUIDITY RISK

The Fund's listed securities are considered readily realisable, as they are listed on the Australian Exchange.

3.4 CURRENCY RISK

The Fund holds assets denominated in a currency other than the New Zealand dollar, the functional currency. It is therefore exposed to currency risk, as the value of the securities denominated in Australian dollars will fluctuate due to changes in the exchange rate. The Fund's policy is not to enter into any currency hedging transactions.

The table below summarises the Fund's exposure to currency risks.

NZD CONCENTRATION OF ASSETS AND LIABILITIES UNDER AUSTRALIAN DOLLARS (AUD)

	Mar 2011 \$000	Mar 2010 \$000
ASSETS		
Investments in equity securities held at fair value	110,035	111,778
Australian dollar cash held (NZD)	891	-

4. TAXATION

	Year Ended Mar 2011 \$000	Year Ended Mar 2010 \$000
INCOME TAX EXPENSE		
Net Profit/(Loss) before tax	6,507	38,125
Add back management fees	-	579
Add back decrease/(increase) in net changes in fair value of financial assets	(2,547)	(34,600)
Gross up of FWT withheld and ICs on dividends	25	-
Dividends subject to FDR regime	(330)	(272)
Taxable income on FDR securities	189	181
Dividends subject to Foreign Dividend Withholding Payments ('FDWP')	(464)	-
Taxable income	3,380	4,013
Taxation at 30%	1,014	1,204
Less imputation credits, foreign withholding tax and foreign income tax credits	(43)	(15)
Effect of tax rate change	(15)	-
Transfer in respect of FDWP	138	-
Prior period adjustment	-	10
Tax expense	1,094	1,199
DEFERRED TAX		
Opening balance	(322)	(233)
Effect of tax rate change	15	-
Current year movement	97	(89)
Closing balance	(210)	(322)
IMPUTATION CREDITS		
Opening balance	4	24
Net tax paid during the period	911	115
Credits attached to distributions paid	(392)	(135)
Closing balance	523	4
DIVIDEND WITHHOLDING PAYMENT CREDITS		
Opening balance	30	33
Prior year adjustment	60	-
Net tax paid during the period	208	1,165
Credits attached to distributions paid	(351)	(1,168)
Closing balance	(53)	30

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by New Zealand corporate entities on taxable profits under New Zealand tax law. There has been a change in the corporate tax rate from 30% to 28% from 1 April 2011. The deferred tax balance at 31 March 2011 is calculated using the new corporate tax rate, and the adjustment above shows the effect of the change in rate of deferred tax.

Notes to the Financial Statements

Continued

5. UNITS

All issued units are fully paid and redeemable, and have been admitted to the official listing of the NZX Main Board. The Fund's net assets attributable to Unitholders are represented by these units. The Fund has no restrictions or specific requirements on the subscriptions and redemptions of units, other than minimum holding requirements as defined in the prospectus. The relevant movements are shown on the Statement of Changes in Net Assets Attributable to Unitholders.

6. DISTRIBUTION TO UNITHOLDERS

	Total attributed to Unitholders Mar 2011 \$000	Total attributed to Unitholders Mar 2010 \$000
Opening Distribution payable	1,490	1,561
Distribution accrued to Unitholders	3,217	2,326
	4,707	3,887
Distributed to Unitholders	(1,982)	(2,545)
Transfer	-	148
Closing Distribution payable	2,725	1,490

7. RELATED PARTIES

The Fund is managed by Smartshares Limited (the 'Manager'), a wholly owned subsidiary of NZX Limited. Smartshares Limited receives management fees from the Fund. Under the Trust Deed the Manager pays the 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. Total gross management fees excluding rebates for the year ended 31 March 2011 amounted to \$630,000 (March 2010 \$579,000, rebates not applicable), with \$56,000 (Mar 2010: \$54,000) outstanding accrued fees due to Smartshares Limited at the end of the period. At 31 March 2011 the Fund has payables to Smartshares Limited of \$7,000 (Mar 2010: \$nil).

The audit fee paid by the Manager for the audit of the Fund for the year to 31 March 2011 was \$3,000 (2010: \$4,000).

8. INVESTMENTS IN EQUITY SECURITIES HELD AT FAIR VALUE AS AT 31 MARCH 2011

Company	Number of Securities	Fair Value A\$	Fair Value NZ\$
AMP Limited	300,350	1,624,894	2,198,773
Australia & New Zealand Banking Group Limited	277,994	6,610,697	8,945,463
BHP Billiton Limited	359,822	16,749,714	22,665,378
Brambles Limited	155,534	1,101,181	1,490,096
Commonwealth Bank of Australia	166,037	8,698,678	11,770,877
CSL Limited	58,399	2,084,844	2,821,170
Fosters Group Limited	206,602	1,171,433	1,585,160
Macquarie Bank Ltd	36,943	1,350,267	1,827,154
National Australia Bank Limited	232,611	6,006,016	8,127,221
Newcrest Mining Limited	81,841	3,253,180	4,402,138
Origin Energy Limited	113,305	1,836,674	2,485,351
QBE Insurance Group Limited	112,747	1,991,112	2,694,333
Rio Tinto Limited	46,720	3,957,184	5,354,782
Suncorp-Metway Limited	136,259	1,152,751	1,559,880
Telstra Corporation Limited	1,192,938	3,364,085	4,552,213
Westpac Banking Corporation	322,575	7,845,024	10,615,729
Westfield Group	227,020	2,118,097	2,866,166
Wesfarmers Limited	124,166	3,936,062	5,326,201
Woolworths Limited	129,995	3,487,766	4,719,575
Woodside Petroleum Limited	63,601	2,976,527	4,027,776
		81,316,186	110,035,434

All financial assets are designated at inception as being at fair value through profit or loss. The fair value of financial assets is calculated using the last bid price. The fair value of financial assets held at 31 March 2011 was A\$81,316,186 (Mar 2010: A\$86,616,723). The New Zealand dollar equivalent was NZ\$110,035,434 (Mar 2010: NZ\$111,777,935), the exchange rate used was \$0.7390 (Mar 2010: 0.7749). The investments are registered in the name of JB Were (NZ) Nominees Ltd, the Custodian of the Fund.

Notes to the Financial Statements

Continued

9. UNITHOLDERS' FUNDS

As at 31 March 2011 there were 28,041,665 (Mar 2010: 29,077,008) units on issue. Due to the requirements of NZ IFRS and IFRS, there are differences between the valuation of investments for the purposes of determining the net asset value and for the purposes of determining the value of financial assets in the financial statements.

For the purposes of determining the net asset value, quoted investment positions are valued at last traded market prices on the relevant trading day in accordance with the Fund's offering documents and Trust Deed. The valuation does not include unsettled trades. The net asset value of each unit at 31 March 2011 was \$3.9613 (Mar 2010: \$3.858).

NZ IFRS and IFRS require that long quoted investment positions be valued at closing bid prices (excluding provision for disposal costs) on the relevant trading day. The NZ IFRS net asset value of each unit at 31 March 2011 was \$3.9536 (Mar 2010: \$3.844).

10. FAIR VALUE

Financial instruments can be categorised across the following 3 levels based on the degree to which their fair value is 'observable':

Level 1 – Fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Fair value measurements are derived from inputs other than quoted prices included within level 1 that are observable either directly or indirectly;

Level 3 – Fair value measurements are derived from valuation methods that include inputs that are not based on observable market data.

All financial instruments of the Fund have been categorised as level 1 in the hierarchy. There were no transfers between levels in the period ended 31 March 2011.

11. EVENTS AFTER THE BALANCE SHEET DATE

There were no events after balance date

12. CONTINGENT LIABILITIES

There are no known contingent liabilities as at balance date (Mar 2010: nil).

13. ISSUED BUT NOT YET EFFECTIVE ACCOUNTING STANDARDS

NZ IFRS 7 Financial Instrument has the following amendments:

- ▶ Amended and removed existing disclosure requirements and requires that qualitative disclosure should be made in relation to the quantitative disclosure to better enable users to evaluate an entity's exposure to risks arising from financial instruments. The impact of this change has not yet been determined.

NZ IFRS 9 Financial Instruments has the following amendments:

- ▶ Simplifies the mixed measurement model and establishes amortised cost and fair value categories for financial assets. The basis of classification depends on the business model of the entity and the contractual cash flow characteristics of the financial asset.
- ▶ Measurements and classification requirements of financial liabilities remain unchanged, except fair value option and certain derivatives linked to unquoted equity instruments.

The impact of any changes has not yet been determined

There are a number of other issued but not yet effective standards that the Fund has assessed as having either no impact or the impact has yet to be determined.

Unitholder Information

DISTRIBUTION OF SECURITY HOLDERS AND SECURITY HOLDINGS AS AT 31 MARCH 2011

	No. of holders	% of holders	No. of securities	% of securities
1 to 1,000	400	12.24%	176,211	0.63%
1,001 to 5,000	1,609	49.22%	4,675,646	16.67%
5,001 to 10,000	719	21.99%	5,288,534	18.86%
10,001 to 100,000	521	15.94%	10,512,846	37.49%
100,000 and above	20	0.61%	7,388,428	26.35%
Total	3,269	100.00%	28,041,665	100.00%

20 LARGEST REGISTERED HOLDERS OF QUOTED EQUITY SECURITIES AS AT 31 MARCH 2011

Full Name	Total	Percentage
FNZ Custodians Limited	1,788,363	6.38%
Investment Custodial Services Limited (C A/C)	1,378,818	4.92%
FNZ Custodians Limited (DRP NZ A/C)	606,599	2.16%
Courtenay Nominees Limited	464,382	1.66%
Michael Donald Wight & Geraldine Louise Wight	386,486	1.38%
Custodial Services Limited (8 A/C)	385,278	1.37%
Custodial Services Limited (3 A/C)	303,450	1.08%
Alan Gordon Smart	269,505	0.96%
Aratrust Limited (Ara Lodge 348 IC Charitable A A/C)	241,500	0.86%
Custodial Services Limited (2 A/C)	164,700	0.59%
Forsyth Barr Custodians Limited (1-33 A/C)	154,407	0.55%
Custodial Services Limited (18 A/C)	153,185	0.55%
Flora Fitzherbert Rudman	150,000	0.53%
Private Nominees Limited (Residents A/C)	147,315	0.53%
Nigel High & Hsiao Ming High	141,229	0.50%
Craigs Investment Partners Limited	135,877	0.48%
Judith Anne Knowles	135,688	0.48%
Forsyth Barr Custodians Limited (1-17.5 A/C)	132,197	0.47%
Michael Donald Wight & Geraldine Louise Wight & David Leonard Gill	129,449	0.46%
New Zealand Methodist Trust Association	120,000	0.43%
	7,388,428	26.34%

Unitholder Information

Continued

SUBSTANTIAL SECURITY HOLDERS

The following information is given pursuant to section 35F of the Securities Markets Act 1988. According to the file kept by the Fund under section 35C of the Securities Market Act 1988, as at 31 March 2011 the only substantial holder in the Fund was FNZ Custodians Limited with 1,788,363 units. The total number of units on issue at 31 March 2011 was 28,041,665.

DIRECTORS' INTERESTS IN UNITS AS AT 31 MARCH 2011

	Beneficial	Non-Beneficial
Damas Potoi (resigned 6 April 2010)	-	-
Geoffrey Brown (resigned 21 May 2010)	-	-
Fiona Mackenzie (appointed 14 September 2009)	2,718	-
Garth Taylor (appointed 6 April 2010, resigned 9 November 2010)	-	-
Rowan Macrae (appointed 21 May 2010)	-	-
Helena Lewis (appointed 9 November 2010)	-	-

WAIVERS GRANTED

The Special Division of New Zealand Markets Disciplinary Tribunal (formerly NZX Discipline) has granted, either fully, partially or subject to conditions, the following waivers from the Listing Rules that were applicable at 31 March 2011:

- 1.9.1 – provisions of Rules applying to Equity Securities.
- 3.1.1(a) – compliance with the Listing Rules
- 3.1.3 – Compliance with the provisions in Appendix 6.
- 3.3.1(c) to 3.3.1C, 3.6.2(a) and 3.6.2(c) – Requirements for an Audit Committee and Independent Directors.
- 3.3.2 to 3.3.12 – Appointment and Rotation of Directors.
- 3.4 – Proceedings and Power of Directors
- 3.5 – Directors' remuneration.
- Section 4 and 3.1.1(b) – Takeover Provisions.
- 7.1.7 – Regulation 23 statements for Offering Documents.
- 7.1.11 – Minimum Subscription.
- 7.3 – Issues of Securities.
- 7.4 – Entitlements to Third Parties.
- 7.5 – Issues and Redemptions affecting Control.
- 7.6.1 to 7.6.3 – Buybacks and Redemptions.
- 7.11.1 – Time for Allotment.
- 7.12.2 – Notification of event affecting Securities.
- 8.2.1 to 8.2.3 – Lien on Distributions.
- 8.3.1 – Ruling in relation to Interest Groups.
- 9.1.1(b) – Disposition or acquisition of assets.
- 9.2.1(a) – Material Transactions with Related Parties.
- 10.4.2, 10.5.1(b) – Contents required for Preliminary Announcement and Annual Report.
- 10.5.2 – Half-yearly reporting requirements.
- 10.8.1(a) – Notification of subdivision, consolidation or issue of securities.
- 11.1.1 – Restrictions on Transfers.
- 11.2.3 – Statements after Issues or Transfers.
- 11.1.5 – Approval for restrictions in Trust Deed.
- Appendix 2 – Minimum Holding.



Independent Auditor's Report

To the Unitholders of NZX Australian 20 Leaders Index Fund

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of NZX Australian 20 Leaders Index Fund ("the Fund") on pages 70 to 80. The financial statements comprise the statement of financial position as at 31 March 2011 and the statements of comprehensive income, changes in net assets attributable to unitholders and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Manager's Responsibility for the Financial Statements

The Manager is responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards that give a true and fair view of the matters to which they relate, and for such internal control as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other than in our capacity as auditors we have no relationship with, or interests in, the Fund.

Opinion

In our opinion the financial statements of NZX Australian 20 Leaders Index Fund on pages 70 to 80:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the Fund as at 31 March 2011 and of its financial performance and cash flows for the year ended on that date.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by NZX Australian 20 Leaders Index Fund as far as appears from our examination of those records.

27 May 2011

Wellington

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 strategic business decisions in relation to the Funds, and no discretion as to the how Fund assets may be invested. 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. Given that the Trustees maintain a regime of oversight to ensure the Manager's compliance with the detailed provisions of the Trust Deed the Manager has not adopted a code of ethics in respect of the Funds.

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 practices of Smartshares Limited relating 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 three executive Directors: Fiona Mackenzie (Chairman), Rowan Macrae and Helena Lewis. All of the Directors are employees of NZX Limited (NZX). None of the Directors are Independent Directors as defined in the NZSX Listing Rules. 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.

COMMITTEES

The Board of the Manager has one committee, an Audit Committee, comprising Neil Paviour-Smith (Chairman), Chris Moller (both Independent Directors of NZX) and Fiona Mackenzie. In March 2011, the Board resolved to adopt formal Audit Committee Terms of Reference, which will set out the Audit Committee's role in assisting the Board with financial reporting and audit matters, and will contemplate that the Audit

Committee will meet at least twice annually.

Smartshares Limited has been granted a waiver from the requirements in Listing Rules 3.3.1(c), 3.6.2(a) and 3.6.2(c) for the Board to have Independent Directors and to enable the Audit Committee to include Independent Directors from Smartshares Limited's parent company, NZX. 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 that 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;
- ▶ 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 no remuneration committee as no Director receives any remuneration directly from Smartshares Limited, and the Board of Smartshares Limited consists of only three Directors. The Manager is entitled to remuneration in respect of management of the Funds. Information about the remuneration received by the Manager for the financial year ended March 2011 can be found in the financial statements for the Funds set out in this report.