

# ANNUAL REPORT 2008 smartshares



SMARTSHARES LIMITED ANNUAL REPORT

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## CHAIRMAN'S REPORT

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This year sees the financial statements for all five Smartshares funds together for the full 12-month period to 31 March 2008. This results from bringing all the funds into the same 31 March annual reporting cycle in 2007 so as to streamline our communications and deliver ongoing cost efficiencies for the Smartshares business and to investors in our funds.

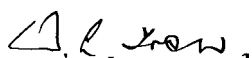
2007 was an incredibly busy year for Smartshares which saw a number of positive developments in the funds management industry. One of those was the introduction of the Government's saving initiative, KiwiSaver on 1 July 2007. Smartshares launched its own KiwiSaver Scheme, Smartkiwi, which offers investors a choice of three funds: Conservative, Balanced and Growth, investing in both the New Zealand and Australian capital markets.

As with all Smartshares funds, Smartkiwi was designed to deliver investors a simple, transparent, cost effective and market-performing investment. We have continued to develop the product and investors now have the ability to track their KiwiSaver contributions through an online web facility called "My Account".

Also in 2007 we saw the introduction of the new tax regime for the managed funds industry, and all Smartshares funds were registered as Portfolio Investment Entities (PIE's) from 1 October 2007. The introduction of this new regime sees Smartshares funds competing on a level playing field with actively managed funds and we are confident our low fees and transparent performance will ensure the continued growth of Smartshares and benefits for our investors.

The first three months of 2008 have been a volatile period in global investment markets, with the ripple effect from the "credit crunch" in the United States having a significant impact on many investors in New Zealand. This highlights the importance for investors of being fully conversant and confident with the products they are investing into. The Smartshares funds have always prided themselves on giving investors complete transparency in relation to their underlying investments and delivering the return that the market generates at a reasonable cost. Our commitment is to continue to deliver these benefits to you and introduce initiatives for the funds which meet these core principles.

I would like to thank you for your continued support for Smartshares and we look forward to being of service to you throughout 2008 and beyond.



Don Trow  
Chairman



# smartTENZ

## NZX 10 INDEX FUND (smartTENZ)

### PERFORMANCE FOR THE FINANCIAL YEAR ENDED 31 MARCH 2008

#### Fund Performance

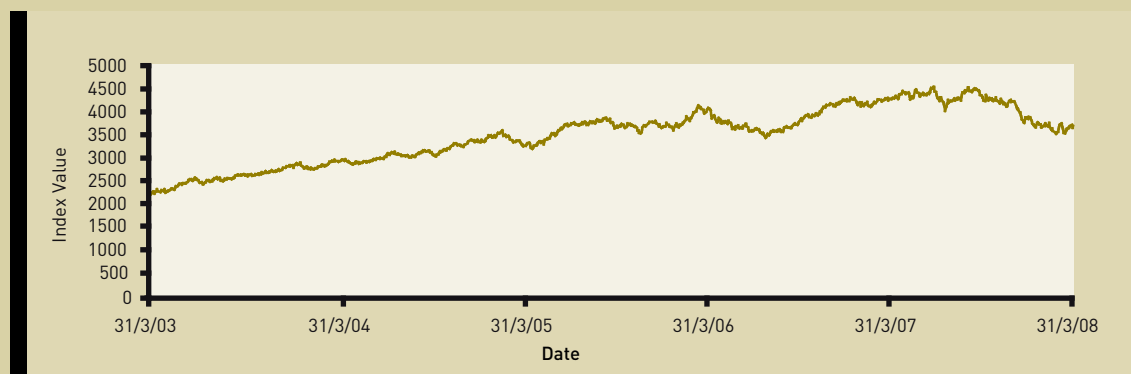
For the year to 31 March 2008, the NZX 10 Fund (smartTENZ) returned negative 18.62% before the payment of any dividends. For the full year, distributions totalled 5.99 cents per unit gross\*. This equates to a gross dividend yield of 5.76% based on the market price as at 31 March 2008 (market price at 31 March 2008: \$1.04).

SmartTENZ had 59.4 million units on issue with a market capitalisation of \$61.5 million as at 31 March 2008.

#### Index Performance

The NZX 10 Gross Index, which includes any dividends paid, returned negative 16.15% over the year. During the last five years the NZX 10 Gross Index has had an annualised return of 8.58% per annum.

#### Performance of the NZX 10 Gross Index



#### Key metrics for the financial year ended 31 March 2008

	31 March 2008	31 March 2007**	31 December 2006	31 December 2005	31 December 2004
NZX 10 Capital Index	1,035.54	1,284.45	1,297.06	1,241.55	1,191.53
Net assets per unit	\$1.036	\$1.284	\$1.297	\$1.242	\$1.192
Distribution per unit over year*	5.99 cents	NIL	6.85 cents	7.21 cents	6.99 cents
Number of Unitholders	3,177	3,257	3,317	3,507	3,813
Units on issue	59,424,270	60,653,639	61,023,136	64,334,297	70,445,142
Total value of Unitholders' funds	\$61,536,209	\$77,906,297	\$79,150,919	\$79,874,964	\$83,937,327

\* Before the deduction of management fees

\*\* The year end for the fund has been changed from December to March. The data quoted is for the three months to 31 March 2007

# smartTENZ

NZX 10 FUND (smartTENZ)

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REPORT TO UNITHOLDERS



FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008

Presented by Smartshares Limited, Manager of the NZX 10 Fund

# FINANCIAL STATEMENTS

## INCOME STATEMENT

For the Year Ended 31 March 2008

	Note	12 Months Mar 2008 \$000	3 Months Mar 2007 \$000
<b>Income</b>			
Company dividends		4,072	619
Other income		34	-
Net changes in fair value of financial assets		(14,615)	(680)
<b>Total Net Income</b>		<b>(10,509)</b>	<b>(61)</b>
Management fees		(354)	(87)
<b>Decrease in Net Assets Attributable to Unitholders Before Tax</b>		<b>(10,863)</b>	<b>(148)</b>
Tax expense	4	(114)	(114)
<b>Decrease in Net Assets Attributable to Unitholders after Tax</b>		<b>(10,977)</b>	<b>(262)</b>

## CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

For the Year Ended 31 March 2008

	Note	12 Months Mar 2008 \$000	3 Months Mar 2007 \$000
Net assets attributable to Unitholders at beginning of period		77,590	78,709
Decrease in net assets attributable to Unitholders this period		(10,977)	(262)
Net subscriptions redeemed	5	(1,680)	(439)
Distribution accrued to Unitholders	6	(3,638)	(418)
<b>Net Assets Attributable to Unitholders at End of Period</b>		<b>61,295</b>	<b>77,590</b>

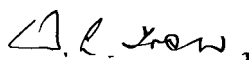
Comparative figures are for a 3 month period due to a change in balance date from 31 December to 31 March.

## BALANCE SHEET

As at 31 March 2008

	Note	Mar 2008 \$000	Mar 2007 \$000
<b>CURRENT ASSETS</b>			
Cash at call		566	738
Accounts receivable		411	56
Taxation receivable		360	167
<b>Total Current Assets</b>		<b>1,337</b>	961
<b>NON-CURRENT ASSETS</b>			
Investments in equity securities held at fair value	8	61,295	77,590
<b>Total Non-Current Assets</b>		<b>61,295</b>	77,590
<b>Total Assets</b>		<b>62,632</b>	78,551
<b>CURRENT LIABILITIES</b>			
Accounts payable		177	108
Management fees payable		51	30
Funds held for unit purchases		18	124
Distribution payable to Unitholders	6	1,091	699
<b>Total Liabilities excluding Net Assets Attributable to Unitholders</b>		<b>1,337</b>	961
<b>NET ASSETS ATTRIBUTABLE TO UNITHOLDERS</b>		<b>61,295</b>	77,590

The Board of Directors of Smartshares Limited authorised these financial statements for issue on 30 May 2008.



**D G Trow**  
 Chairman  
 Smartshares Limited



**G B D Brown**  
 Director  
 Smartshares Limited



## FINANCIAL STATEMENTS CONTINUED

### CASH FLOW STATEMENT

For the Year Ended 31 March 2008

	Note	12 Months Mar 2008 \$'000	3 Months Mar 2007 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Cash was provided from:</b>			
Company dividends received		3,691	619
Other income received		34	-
<b>Cash inflows from operating activities</b>		<b>3,725</b>	<b>619</b>
<b>Cash was applied to:</b>			
Management fees paid		333	180
Taxation paid	4	288	23
<b>Cash outflows from operating activities</b>		<b>621</b>	<b>203</b>
<b>Net Cash Flows from Operating Activities</b>		<b>3,104</b>	<b>416</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<b>Cash was provided from:</b>			
Net payments made by fund manager on behalf		76	-
<b>Cash inflows from investing activities</b>		<b>76</b>	<b>-</b>
<b>Net Cash Flows from Investing Activities</b>		<b>76</b>	<b>-</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>Cash was provided from:</b>			
Savings plan & direct purchase deposits		423	358
<b>Cash inflows from financing activities</b>		<b>423</b>	<b>358</b>
<b>Cash was applied to:</b>			
Purchase of financial assets		529	319
Distributions paid to Unitholders	6	2,182	1,202
Distributions paid for dividend reinvestment	6	1,064	573
<b>Cash outflows from financing activities</b>		<b>3,775</b>	<b>2,094</b>
<b>Net Cash Flows from Financing Activities</b>		<b>(3,352)</b>	<b>(1,736)</b>
Net decrease in cash held		(172)	(1,320)
Opening cash balance		738	2,058
<b>Cash at End of Period</b>		<b>566</b>	<b>738</b>
<b>RECONCILIATION OF DECREASE IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS AFTER TAX WITH NET CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Decrease in net assets attributable to Unitholders after tax		(10,977)	(262)
<b>Less non-cash items:</b>			
Net changes in fair value of financial assets		14,615	680
Operating movement in taxation receivable		(174)	95
Movement in management fees payable		21	(93)
Movement in accounts receivable		(355)	-
Operating movement in accounts payable		(26)	(4)
<b>Net Cash Flows from Operating Activities</b>		<b>3,104</b>	<b>416</b>

Comparative figures are for a 3 month period due to a change in balance date from 31 December to 31 March.



# NOTES TO THE FINANCIAL STATEMENTS

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## 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 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 and distributions are confined only to dividends received from the portfolio of investments in equity securities. All changes in the value of investments, both realised and unrealised are recorded in the Income Statement.

The Fund's investment activities are managed by Smartshares Limited (the 'Investment Manager') tracking the NZX 10 Index. As prescribed by the Trust Deed, the Fund only invests in the securities included in the NZX 10 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 New Zealand Exchange. Investments in equity securities are valued at fair value according to last bid prices on the New Zealand Exchange on 31 March 2008 [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 New Zealand equivalents to International Financial Reporting Standards (NZ 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 NZD.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the 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 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 right 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 initially recognised at fair value. Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the financial assets at fair value through



# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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profit or loss category are presented in the Income Statement when they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the Income Statement 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.

### **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.

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

### **2.4 Redeemable Units**

The Fund issues redeemable units, which are redeemable at the Unitholder's option and are classified as financial liabilities. Redeemable units can be put back to the Fund at any time, in accordance with the redemption rules as defined in the prospectus, for cash equal to a proportionate share of the Fund's net asset value. The redeemable unit is carried at the redemption amount that is payable at the balance sheet date if the holder exercises the right to put the unit back to the Fund.

Redeemable units are issued and redeemed at the Unitholder's option at prices based on the Fund's net assets 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 redeemable units by the total number of outstanding redeemable 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.

### **2.5 Dividend Revenue**

Company dividend income is recognised when the right to receive payment is established.

### **2.6 Distributions Payable to Holders of Redeemable Units**

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

Distribution of this income is made as at 20 March (record date 29 February) and 20 September (record date 31 August) each year.

## **2.7 Taxation**

The Fund is domiciled in New Zealand and had a binding ruling from the New Zealand Inland Revenue Department which expired on 30th September 2007. The binding ruling stated that any gains realised from the sale of shares, in order to match the composition and weighting of the Index or to fund redemption of units, was not taxable to the Fund. The fund was registered as a Portfolio Investment Entity (PIE) from 1st October 2007.

The Fund is liable for tax at the prevailing company rate on taxable dividends (excluding dividends from entities subject to the Fair Dividend Rate method) from the companies listed in Note 8. 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 Comparatives**

Comparative figures where necessary have been restated to correspond to the current year classifications. Comparative figures are for a 3 month period due to a change in balance date from 31 December to 31 March.

# **3. Financial Risk Management**

The Fund's activities expose it to a variety of financial risks: market risk, credit risk and liquidity 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:



## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

	Mar 2008 \$000	Mar 2007 \$000
Cash	566	738
Accounts receivable	411	56
Investments in equity securities held at fair value	61,295	77,590

### 3.3 Liquidity risk

The Fund is exposed to daily cash redemptions. The Fund's listed securities are considered readily realisable, as they are listed on the New Zealand Exchange.

## 4. Taxation

	12 Months Mar 2008 \$000	3 Months Mar 2007 \$000
<b>INCOME TAX EXPENSE</b>		
Decrease in net assets attributable to Unitholders before tax	(10,863)	(148)
Add back management fees	354	87
Add back net changes in fair value of financial assets	14,615	680
Non-taxable income	(106)	-
Fully imputed accrued dividends	(411)	-
Other	31	-
Gross up of FWT and RWT withheld on dividends	40	-
Gross up of imputation credits	1,691	309
<b>Taxable income</b>	<b>5,351</b>	<b>928</b>
Taxation at 33%	1,766	306
Less imputation credits and foreign income tax credits	(1,699)	(315)
Less FWT and RWT credits	(40)	-
Prior period adjustment	87	123
<b>Tax expense</b>	<b>114</b>	<b>114</b>
<b>IMPUTATION CREDITS</b>		
Opening balance	1,405	1,980
Imputation credits received during the period	1,691	309
Net tax paid during the period	288	20
	<b>3,384</b>	<b>2,309</b>
Credits attached to distributions paid	(1,713)	(904)
Prior period adjustment	(408)	-
<b>Credits to be available for future distributions</b>	<b>1,263</b>	<b>1,405</b>

	12 Months Mar 2008 \$000	3 Months Mar 2007 \$000
<b>DIVIDEND WITHHOLDING PAYMENT CREDITS</b>		
Opening balance	(11)	26
DWP credits received during the period	37	-
Credits attached to distributions paid	(37)	(37)
Prior period adjustment	11	-
<b>Closing balance</b>	<b>-</b>	<b>(11)</b>

The tax rate used in the above reconciliation is the corporate rate of 33%. There has been a change in the corporate tax rate from 33% to 30% from 1 April 2008.

## 5. Redeemable Units

All issued units are fully paid and redeemable, and have been admitted to the official listing of the New Zealand Exchange. The Fund's capital is represented by these redeemable 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 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.

To determine the net asset value of the Fund for subscriptions and redemptions, financial assets have been valued based on the last traded market prices as of the close of business on the relevant trading day.

## 6. Distribution to Unitholders

	Total attributed to Unitholders Mar 2008 \$000	Total attributed to Unitholders Mar 2007 \$000
Distribution payable at beginning of period	699	2,056
Distribution accrued to unitholders	3,638	418
	<b>4,337</b>	<b>2,474</b>
Distributed to Unitholders	(3,246)	(1,775)
<b>Distribution payable to Unitholders</b>	<b>1,091</b>	<b>699</b>

## 7. Related Parties

The Fund is managed by Smartshares Limited (the 'Investment Manager'), a wholly owned subsidiary of New Zealand Exchange Limited. Smartshares Limited receives management fees directly from the Unitholders. 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 management fees for the year amounted to \$354,000 (3 months ending 31 March 2007 \$87,000), with \$51,000 (Mar 2007: \$30,000) outstanding accrued fees due to Smartshares Limited at the end of the period. At 31 March 2008 the Fund has payables to Smartshares Limited of \$177,000 (Mar 2007: \$108,000).



## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 8. Investments in Equity Securities held at Fair Value as at 31 March 2008

Company	Number of Securities	Fair Value \$
Auckland International Airport Limited	2,948,536	6,693,177
Contact Energy Limited	1,391,076	10,989,500
Fisher & Paykel Appliances Limited	686,591	1,606,623
Fisher & Paykel Healthcare Limited	1,227,558	3,584,469
Fletcher Building Limited	1,208,113	10,087,744
Kiwi Income Property Trust	1,731,463	2,095,070
Sky City Entertainment Group Limited	1,117,379	4,123,128
Sky Network Television Limited	938,764	4,487,292
Telecom Corporation of New Zealand Limited	4,399,116	16,452,694
Vector Limited	683,486	1,175,596
		<b>61,295,293</b>

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. The fair value of financial assets held at 31 March 2008 was \$61,295,293 (Mar 2007: \$77,589,744). The investments are registered in the name of The New Zealand Guardian Trust Company Limited, the custodian of the Fund.

### 9. Unitholders' Funds

As at 31 March 2008 there were 59,424,270 (Mar 2007: 60,653,639) units on issue. Due to the requirements of NZ 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 net asset value of each unit at 31 March 2008 was \$1.0355 (Mar 2007: \$1.2845).

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 2008 was \$1.0315 (Mar 2007: \$1.2792).

### 10. Events after the Balance Sheet Date

There were no post-balance sheet events.

### 11. Contingent Liabilities

There are no known contingent liabilities as at balance date (Mar 2007: nil).

## UNITHOLDER INFORMATION

### Distribution of security holders and security holdings as at 31 March 2008

	No. of holders	% of holders	No. of securities	% of securities
1 to 4,999	988	31.10%	2,104,964	3.54%
5,000 to 49,999	2,090	65.78%	29,901,391	50.32%
50,000 to 499,999	94	2.96%	9,249,375	15.57%
500,000 and above	5	0.16%	18,168,540	30.57%
<b>Total</b>	<b>3,177</b>	<b>100.00%</b>	<b>59,424,270</b>	<b>100.00%</b>

### 20 Largest registered holders of quoted equity securities as at 31 March 2008

Full Name	Total	Percentage
New Zealand Central Securities Depository Limited	15,903,330	26.76%
Custodial Services Limited (3 a/c)	692,153	1.16%
HSBC Nominees (New Zealand) Limited (a/c 040-018137-100)	550,000	0.93%
Custodial Services Limited (8 a/c)	517,069	0.87%
Eeshala Nominees Limited	505,988	0.85%
HSBC Nominees (New Zealand) Limited (a/c 040-016867-231)	402,439	0.68%
Minnow Investments Limited	369,866	0.62%
Ross Richard Stuhlmann & Graham John Stevens & Stewartco Trust Services Limited	363,846	0.61%
Maori Investments Limited	346,698	0.58%
John Lockie Stewart & Meghann Patricia Stewart (Stewart Family a/c 1)	266,334	0.45%
Dennis George Row & Joan Doran Row & SW Trust Services Limited (Avalon No. 2 a/c)	265,000	0.45%
Thomas William Schnackenberg & Annette Helen Schnackenberg	238,633	0.40%
Citibank Nominees NZ Limited (Tenz Fund a/c)	206,787	0.35%
Custodial Services Limited (2 a/c)	203,814	0.34%
Bruce Moncur Stewart	171,837	0.29%
Diana Renker	170,012	0.29%
Julian Charles Stanley Smith & Trevor Donald Scott & John Murray Fox	152,195	0.26%
Kathryn May Kelly & David Anderson Smith (Kelly Dickison a/c)	142,995	0.24%
David Anderson Smith & Graeme Albert Smaill (Logan Leith No. 2 a/c)	142,995	0.24%
Wallace John Semmens & Rose Agnes Semmens & Ernest William Gartrell	141,800	0.24%
	<b>21,753,791</b>	<b>36.61%</b>

### Substantial Security Holders

As at 31 March 2008, the Fund has not received any notices from Substantial Security Holders pursuant to section 26 of the Securities Amendment Act 1988.



## UNITHOLDER INFORMATION CONTINUED

### Directors Interests in units as at 31 March 2008

	Beneficial	Non-Beneficial
Donald Trow	-	32,841
Mark Weldon	-	-
Geoffrey Brown	5,708	-

### Waivers granted

New Zealand Exchange Limited has granted, either fully, partially or subject to conditions, the following waivers from the Listing Rules that were applicable at 31 March 2008:

Listing Rules: 1.9.1, 3.1.1(a), 3.1.1(b), 3.1.3, 3.3.1(c) to 3.3.1C, 3.3.2 to 3.3.12, 3.4, 3.5, 3.6, Section 4, 7.1.7, 7.1.11, 7.3, 7.5, 7.61 to 7.6.3, 7.11.1, 8.2.1 to 8.2.3, 8.3.1, 9.1.1(b), 9.2.1, 10.4.2, 10.5.1(b), 10.5.2, 10.8.1(a), 11.2.3, 11.1.1, and Appendix 2.





## **Audit report**

### **To the Unitholders of NZX 10 Fund**

We have audited the financial statements on pages 6 to 14. The financial statements provide information about the past financial performance of NZX 10 Fund ("the Fund") and its financial position as at 31 March 2008. This information is stated in accordance with the accounting policies set out on pages 9 to 11.

### **Managers' responsibilities**

The Funds Manager is responsible for the preparation of financial statements which give a true and fair view of the financial position of the Fund as at 31 March 2008 and the results of its operations and cash flows for the year ended on that date.

### **Auditors' responsibilities**

It is our responsibility to express an independent opinion on the financial statements presented by the Manager and report our opinion to you.

### **Basis of opinion**

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

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

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

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

### **Unqualified opinion**

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

In our opinion:

- proper accounting records have been kept by the Fund as far as appears from our examination of those records;
- the financial statements on pages 6 to 14:
  - comply with New Zealand generally accepted accounting practice;
  - give a true and fair view of the financial position of the Fund as at 31 March 2008 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 30 May 2008 and our unqualified opinion is expressed as at that date.

Wellington



# smartMIDZ

## NZX MIDCAP INDEX FUND (smartMIDZ)

### PERFORMANCE FOR THE FINANCIAL YEAR ENDED 31 MARCH 2008

#### Fund Performance

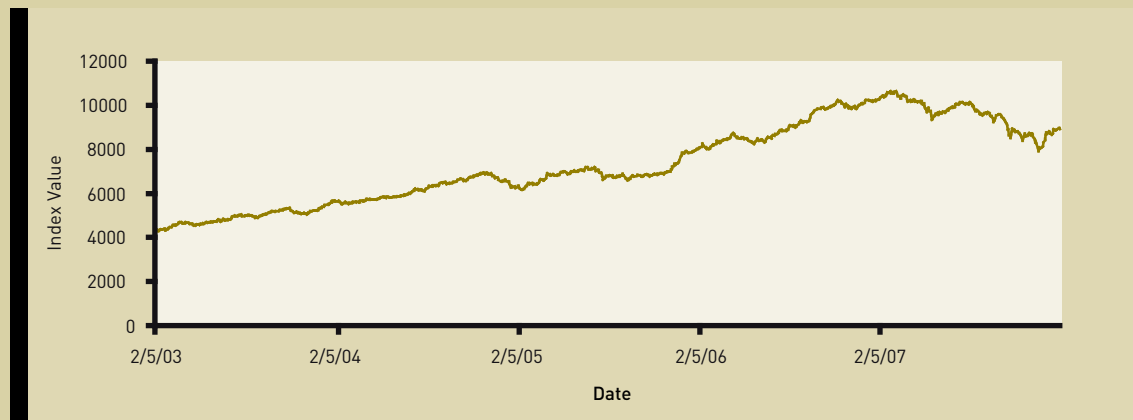
For the year to 31 March 2008, the NZX MidCap Index Fund (smartMIDZ) returned negative 21.45% before the payment of any dividends. For the full year, distributions totalled 13.57 cents per unit gross\*. This equates to a gross dividend yield of 5.16% based on the market price as at 31 March 2008 (market price at 31 March 2008: \$2.63).

SmartMIDZ had 17.0 million units on issue with a market capitalisation of \$45.7 million as at 31 March 2008.

#### Index Performance

The NZX MidCap Gross Index, which includes any dividends paid, returned negative 18.11% over the year. During the last five years the NZX MidCap Gross Index has had an annualised return of 7.75% per annum.

#### Performance of the NZX Midcap Gross Index



#### Key metrics for the financial year ended 31 March 2008

	31 March 2008	31 March 2007**	31 December 2006	31 December 2005	31 December 2004
NZX MidCap Index	2,679.70	3,320.93	3,320.35	2,385.35	2,431.94
Net assets per unit	\$2,680	\$3.351	\$3.320	\$2.385	\$2.431
Distribution per unit over year*	13.57 cents	NIL	9.48 cents	14.56 cents	15.76 cents
Number of Unitholders	2,244	2,210	2,125	2,086	2,072
Units on issue	17,039,709	16,613,399	16,506,647	17,798,418	18,169,198
Total value of Unitholders' funds	\$45,661,228	\$55,171,951	\$54,807,913	\$42,455,407	\$44,186,596

\* Before the deduction of management fees

\*\* The year end for the fund has been changed from December to March. The data quoted is for the three months to 31 March 2007

# smartMIDZ

NZX MIDCAP INDEX FUND (smartMIDZ)

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REPORT TO UNITHOLDERS



FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008

Presented by Smartshares Limited, Manager of the NZX Midcap Index Fund

# FINANCIAL STATEMENTS

## INCOME STATEMENT

For the Year Ended 31 March 2008

	Note	12 Months Mar 2008 \$000	3 Months Mar 2007 \$000
<b>Income</b>			
Company dividends		2,453	560
Other income		125	-
Net changes in fair value of financial assets		(11,788)	906
<b>Total Net Income</b>		<b>(9,210)</b>	1,466
Management fees		(413)	(101)
<b>(Decrease) /Increase in Net Assets Attributable to Unitholders Before Tax</b>		<b>(9,623)</b>	1,365
Tax expense	4	(92)	(239)
<b>(Decrease) /Increase in Net Assets Attributable to Unitholders after Tax</b>		<b>(9,715)</b>	1,126

## CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

For the Year Ended 31 March 2008

	Note	12 Months Mar 2008 \$000	3 Months Mar 2007 \$000
Net assets attributable to Unitholders at beginning of period		54,998	54,227
(Decrease)/Increase in net assets attributable to Unitholders this period		(9,715)	1,126
Net subscriptions allotted/(redeemed)	5	1,991	(135)
Distribution accrued to Unitholders	6	(2,073)	(220)
<b>Net Assets Attributable to Unitholders at End of Period</b>		<b>45,201</b>	54,998

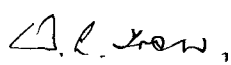
Comparative figures are for a 3 month period due to a change in balance date from 31 December to 31 March.

## BALANCE SHEET

As at 31 March 2008

	Note	Mar 2008 \$000	Mar 2007 \$000
<b>Current Assets</b>			
Cash at call		855	994
Accounts receivable		187	54
Taxation receivable/(payable)		161	(12)
<b>Total Current Assets</b>		<b>1,203</b>	<b>1,036</b>
<b>NON-CURRENT ASSETS</b>			
Investments in equity securities held at fair value	8	45,201	54,998
<b>Total Non-Current Assets</b>		<b>45,201</b>	<b>54,998</b>
<b>Total Assets</b>		<b>46,404</b>	<b>56,034</b>
<b>CURRENT LIABILITIES</b>			
Accounts payable		221	173
Management fees payable		30	135
Funds held for unit purchases		67	61
Distribution payable to Unitholders	6	885	667
<b>Total Liabilities excluding Net Assets Attributable to Unitholders</b>		<b>1,203</b>	<b>1,036</b>
<b>NET ASSETS ATTRIBUTABLE TO UNITHOLDERS</b>		<b>45,201</b>	<b>54,998</b>

The Board of Directors of Smartshares Limited and the Board of Directors of Trustees Executors Limited authorised these financial statements for issue on 30 May 2008.



**D G Trow**  
Chairman  
Smartshares Ltd



**G B D Brown**  
Director  
Smartshares Ltd



**P R Hocking**  
Director  
Trustees Executors Ltd



**D Gupta**  
Director  
Trustees Executors Ltd



## FINANCIAL STATEMENTS CONTINUED

### CASH FLOW STATEMENT

For the Year Ended 31 March 2008

	Note	12 Months Mar 2008 \$000	3 Months Mar 2007 \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Cash was provided from:</b>			
Company dividends received		2,320	506
Other income received		125	-
<b>Cash inflows from operating activities</b>		<b>2,445</b>	<b>506</b>
<b>Cash was applied to:</b>			
Management fees paid		518	-
Tax paid directly by the Fund	4	256	-
<b>Cash outflows from operating activities</b>		<b>774</b>	<b>-</b>
<b>Net Cash Flows from Operating Activities</b>		<b>1,671</b>	<b>506</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<b>Cash was provided from:</b>			
Net payments made by fund manager on behalf		39	-
<b>Cash inflows from investing activities</b>		<b>39</b>	<b>-</b>
<b>Net Cash Flows from Investing Activities</b>		<b>39</b>	<b>-</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>Cash was provided from:</b>			
Savings plan & direct purchase deposits		1,158	521
<b>Cash inflows from financing activities</b>		<b>1,158</b>	<b>521</b>
<b>Cash was applied to:</b>			
Purchase of financial assets		1,152	528
Distributions paid to Unitholders	6	1,045	5
Distributions paid for dividend reinvestment	6	810	-
<b>Cash outflows from financing activities</b>		<b>3,007</b>	<b>533</b>
<b>Net Cash Flows from Financing Activities</b>		<b>(1,849)</b>	<b>(12)</b>
Net (decrease)/increase in cash held		(139)	494
Opening cash balance		994	500
<b>Cash at End of Period</b>		<b>855</b>	<b>994</b>
<b>RECONCILIATION OF (DECREASE)/INCREASE IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS AFTER TAX WITH NET CASH FLOWS FROM OPERATING ACTIVITIES</b>			
(Decrease)/increase in net assets attributable to Unitholders		(9,715)	1,126
<b>Less non-cash items:</b>			
Net changes in fair value of financial assets		11,788	(906)
Operating movement in taxation receivable		(164)	239
Movement in management fees payable		(105)	101
Movement in accounts receivable		(133)	(54)
<b>Net Cash Flows from Operating Activities</b>		<b>1,671</b>	<b>506</b>

Comparative figures are for a 3 month period due to a change in balance date from 31 December to 31 March.

# NOTES TO THE FINANCIAL STATEMENTS

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## 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 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 and distributions are confined only to dividends received from the portfolio of investments. All changes in the value of investments, both realised and unrealised are recorded in the Income Statement.

The Fund's investment activities are managed by Smartshares Limited (the 'Investment Manager') tracking the NZX Midcap Index. As prescribed by the Trust Deed, the Fund only invests in the securities included in the NZX Midcap Index in proportion to the market capitalisation of the Index and the available capital of the Fund. The Fund's units are listed and traded on the New Zealand Exchange. Investments are valued at fair value according to last bid prices on the New Zealand Exchange on 31 March 2008 [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 New Zealand equivalents to International Financial Reporting Standards (NZ 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 NZD.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the 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 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 right 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 initially recognised at fair value. Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured 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 Income Statement when they arise. Dividend income from



# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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financial assets at fair value through profit or loss is recognised in the Income Statement 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.

### **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.

Subscriptions subsequent to the initial public offering can be made in the form of baskets of constituent securities of the NZX Midcap Index (i.e. not for cash) and therefore have not been included in the Cash Flow Statement. Redemptions can also be made in the form of baskets and therefore have not been included in the Cash Flow Statement.

### **2.4 Redeemable Units**

The Fund issues redeemable units, which are redeemable at the Unitholder's option and are classified as financial liabilities. Redeemable units can be put back to the Fund at any time, in accordance with the redemption rules as defined in the prospectus, for cash equal to a proportionate share of the Fund's net asset value. The redeemable unit is carried at the redemption amount that is payable at the balance sheet date if the holder exercises the right to put the unit back to the Fund.

Redeemable units are issued and redeemed at the Unitholder's option at prices based on the Fund's net assets 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 redeemable units by the total number of outstanding redeemable 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.

### **2.5 Dividend Revenue**

Company dividend income is recognised when the right to receive payment is established.

### **2.6 Distributions Payable to Holders of Redeemable Units**

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

Distribution of this income is made as at 20 June (record date 31 May) and 20 December (record date 30 November) each year.

### **2.7 Taxation**

The fund is domiciled in New Zealand and had a binding ruling from the New Zealand Inland Revenue Department which expired on 30th September 2007. The binding ruling stated that any gains realised from the sale of shares, in order to match the composition and weighting of the Index or to fund redemption of units, was not taxable to the Fund. The Fund was registered as a Portfolio Investment Entity (PIE) from 1st October 2007.

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) from the entities listed in Note 8. 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 Comparatives**

Comparative figures where necessary have been restated to correspond to the current year classifications. Comparative figures are for a 3 month period due to a change in balance date from 31 December to 31 March.

## **3. Financial Risk Management**

The Fund's activities expose it to a variety of financial risks: market risk, credit risk and liquidity 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 2008 \$000	Mar 2007 \$000
Cash	855	994
Accounts receivable	187	54
Investments in equity securities held at fair value	45,201	54,998



# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 3.3 Liquidity risk

The Fund is exposed to daily cash redemptions. The Fund's listed securities are considered readily realisable, as they are listed on the New Zealand Exchange.

## 4. Taxation

	12 Months Mar 2008 \$000	3 Months Mar 2007 \$000
<b>INCOME TAX EXPENSE</b>		
(Decrease)/Increase in net assets attributable to Unitholders before tax	<b>(9,623)</b>	1,365
Add back management fees	<b>413</b>	101
Add back net changes in fair value of financial assets	<b>11,788</b>	(906)
Fully imputed accrued dividends	<b>(187)</b>	-
Non-taxable receipts	<b>(512)</b>	-
Other	<b>55</b>	-
Gross up of imputation credits	<b>782</b>	180
Gross up of DWP credits	<b>20</b>	-
<b>Taxable income</b>	<b>2,736</b>	740
Taxation at 33%	<b>903</b>	244
Less imputation credits, DWP and foreign income tax credits	<b>(809)</b>	(196)
Prior period adjustment	<b>(2)</b>	191
<b>Tax expense</b>	<b>92</b>	239
<b>IMPUTATION CREDITS</b>		
Opening balance	<b>329</b>	107
Imputation credits received during the period	<b>782</b>	180
Net tax paid during the period	<b>256</b>	42
	<b>1,367</b>	329
Credits attached to distributions paid	<b>(1,096)</b>	-
Prior period adjustment	<b>133</b>	-
<b>Credits available for future distributions</b>	<b>404</b>	329
<b>DIVIDEND WITHHOLDING PAYMENT CREDITS</b>		
Opening balance	-	-
DWP credits received during the period	<b>20</b>	-
Credits attached to distributions paid	-	-
<b>Closing balance</b>	<b>20</b>	-

The tax rate used in the above reconciliation is the corporate rate of 33%. There has been a change in the corporate tax rate from 33% to 30% from 1 April 2008.

## 5. Redeemable Units

All issued units are fully paid and redeemable, and have been admitted to the official listing of the New Zealand Exchange. The Fund's capital is represented by these redeemable 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 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.

To determine the net asset value of the Fund for subscriptions and redemptions, financial assets have been valued based on the last traded market prices as of the close of business on the relevant trading day.

## 6. Distribution to Unitholders

	Total attributed to Unitholders Mar 2008 \$000	Total attributed to Unitholders Mar 2007 \$000
Distribution payable at beginning of period	667	869
Distribution accrued to unitholders	2,073	220
	<b>2,740</b>	1,089
Distributed to Unitholders	<b>(1,855)</b>	(5)
Transfers	-	(417)
<b>Distribution payable to Unitholders</b>	<b>885</b>	667

## 7. Related Parties

The Fund is managed by Smartshares Limited (the 'Investment Manager'), a wholly owned subsidiary of New Zealand Exchange Limited. Smartshares Limited receives management fees directly from the Unitholders. 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 management fees for the year ended 31 March 2008 amounted to \$413,000 (3 months ending 31 March 2007 \$101,000), with \$30,000 (March 2007: \$135,000) outstanding accrued fees due to Smartshares Limited at the end of the period. At 31 March 2008 the Fund has payables to Smartshares Limited of \$221,000 (March 2007: \$173,000).



## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 8. Investments in Equity Securities held at Fair Value as at 31 March 2008

Company	Number of Securities	Fair Value \$
Air New Zealand Limited	1,085,983	1,390,058
AMP NZ Office Trust	2,340,401	2,621,249
Cavalier Corporation Limited	163,247	409,750
Ebos Group Limited	188,308	915,177
Freightways Limited	564,764	1,897,607
Goodman Property Trust	3,080,545	4,097,125
Hallenstein Glasson Holdings Limited	209,439	779,113
Hellaby Holdings Limited	80,332	138,171
Infratil Limited	1,941,676	4,116,353
ING Medical Properties Trust	439,961	501,556
ING Property Trust	1,584,345	1,489,284
Mainfreight Limited	345,788	1,953,702
Methven Limited	143,089	203,186
Michael Hill International Limited	850,843	740,233
New Zealand Exchange Limited	106,534	773,437
New Zealand Oil and Gas Limited	1,151,203	1,542,612
New Zealand Refining Company Limited	152,805	1,068,107
NZ Farming Systems Uruguay Limited	914,568	1,271,250
Nuplex Industries Limited	355,709	2,152,039
PGG Wrightson Limited	614,454	1,271,920
Port of Tauranga Limited	264,978	1,589,868
Property for Industry Limited	924,316	1,136,909
Pumpkin Patch Limited	543,862	984,390
Rakon Limited	303,211	864,151
Ryman Healthcare Limited	2,195,439	3,754,201
Sanford Limited	215,280	893,412
Skellerup Holdings Limited	302,406	232,853
Steel & Tube Holdings Limited	188,747	528,492
The Warehouse Group Limited	390,969	2,287,168
Tourism Holdings Limited	387,911	663,328
Tower Limited	673,430	1,212,174
TrustPower Limited	229,677	1,722,578
		<b>45,201,453</b>

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 2008 was \$45,201,453 (Mar 2007: \$54,997,516). The investments are registered in the name of Custodial Services Limited, the custodian of the Fund.

## 9. Unitholders' Funds

As at 31 March 2008 there were 17,039,709 (Mar 2007: 16,463,860) units on issue. Due to the requirements of NZ 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 net asset value of each unit at 31 March 2008 was \$2.6797 (Mar 2007: \$3.3511).

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 2008 was \$2.6527 (Mar 2007: \$3.3405).

## 10. Events after the Balance Sheet Date

There were no post-balance sheet events.

## 11. Contingent Liabilities

There are no known contingent liabilities as at balance date (Mar 2007: nil).

# UNITHOLDER INFORMATION

### Distribution of security holders and security holdings as at 31 March 2008

	No. of holders	% of holders	No. of securities	% of securities
1 to 4,999	1,242	55.35%	3,093,856	18.15%
5,000 to 49,999	980	43.67%	11,107,672	65.19%
50,000 to 499,999	22	0.98%	2,838,181	16.66%
500,000 and above	-	0.00%	-	0.00%
<b>Total</b>	<b>2,244</b>	<b>100.00%</b>	<b>17,039,709</b>	<b>100.00%</b>

### 20 Largest registered holders of quoted equity securities as at 31 March 2008

Full Name	Total	Percentage
Custodial Services Limited (3 a/c)	365,766	2.15%
Custodial Services Limited (8 a/c)	356,898	2.09%
Custodial Services Limited (2 a/c)	251,083	1.47%
HSBC Nominees (New Zealand) Limited	251,048	1.47%



## UNITHOLDER INFORMATION CONTINUED

Full Name	Total	Percentage
New Zealand Law Foundation	214,252	1.26%
Citibank Nominees New Zealand Limited	153,059	0.90%
William Evans	131,106	0.77%
Maori Investments Limited	127,061	0.75%
NZ Guardian Trust Co Limited (Hohepa Foundation General Fund a/c)	122,505	0.72%
FNZ Custodians Limited	114,223	0.67%
Dennis George Row & Joan Doran Row & SW Trust Services Limited (Avalon a/c)	104,867	0.62%
ABN Amro Craigs Limited	78,329	0.46%
Mr Martin Johnson	63,205	0.37%
Daisy Joyce Burrell	61,283	0.36%
Claire Margaret Ostler & Jonathan Paul Ostler	59,447	0.35%
Gavin Douglas Horne & Brett Richard Highsted (ATF Doug Horne Family a/c)	58,711	0.34%
Kerry Wayne Petersen & Beverly Petersen	56,395	0.33%
Kathryn May Kelly & David Anderson Smith (Kelly Dickison a/c)	56,160	0.33%
David Anderson Smith & Graeme Albert Smaill (Logan Leith No 2 a/c)	56,160	0.33%
Geoffrey Wayne Smith	54,095	0.32%
	2,735,653	16.06%

### Substantial Security Holders

As at 31 March 2008, the Fund has not received any notices from Substantial Security Holders pursuant to section 26 of the Securities Amendment Act 1988.

### Directors Interests in units as at 31 March 2008

	Beneficial	Non-Beneficial
Donald Trow	-	5,042
Mark Weldon	-	-
Geoffrey Brown	-	-

### Waivers granted

New Zealand Exchange Limited has granted, either fully, partially or subject to conditions, the following waivers from the Listing Rules that were applicable at 31 March 2008:

Listing Rules: 1.9.1, 3.1.1(a), 3.1.1(b), 3.1.3, 3.3.1(c) to 3.3.1C, 3.3.2 to 3.3.12, 3.4, 3.5, 3.6, Section 4, 7.1.7, 7.1.11, 7.3, 7.5, 7.61 to 7.6.3, 7.11.1, 8.2.1 to 8.2.3, 8.3.1, 9.1.1(b), 9.2.1, 10.4.2, 10.5.1(b), 10.5.2, 10.8.1(a), 11.2.3, 11.1.1, and Appendix 2.



## **Audit report**

### **To the Unitholders of NZX Midcap Index Fund**

We have audited the financial statements on pages 20 to 29. The financial statements provide information about the past financial performance of NZX Midcap Index Fund ("the Fund") and its financial position as at 31 March 2008. This information is stated in accordance with the accounting policies set out on pages 23 to 25.

### **Managers' responsibilities**

The Funds Manager is responsible for the preparation of financial statements which give a true and fair view of the financial position of the Fund as at 31 March 2008 and the results of its operations and cash flows for the year ended on that date.

### **Auditors' responsibilities**

It is our responsibility to express an independent opinion on the financial statements presented by the Manager and report our opinion to you.

### **Basis of opinion**

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

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

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

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

### **Unqualified opinion**

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

In our opinion:

- proper accounting records have been kept by the Fund as far as appears from our examination of those records;
- the financial statements on pages 20 to 29:
  - comply with New Zealand generally accepted accounting practice;
  - give a true and fair view of the financial position of the Fund as at 31 March 2008 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 30 May 2008 and our unqualified opinion is expressed as at that date.

Wellington



## NZX 50 PORTFOLIO INDEX FUND (smartFONZ)

### PERFORMANCE FOR THE FINANCIAL YEAR ENDED 31 MARCH 2008

#### Fund Performance

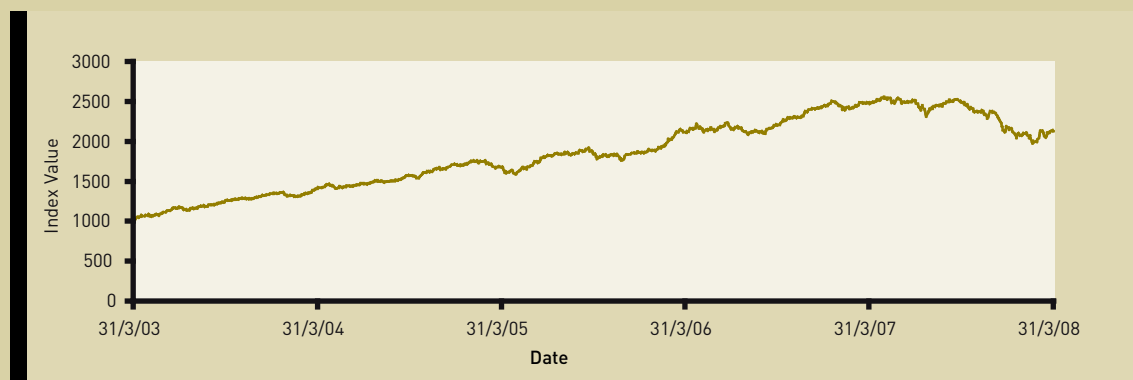
For the year to 31 March 2008, the NZX 50 Portfolio Fund (smartFONZ) returned negative 22.31% before the payment of any dividends. For the full year, distributions totalled 6.40 cents per unit gross\*. This equates to a gross dividend yield of 4.33% based on the market price as at 31 March 2008 (market price at 31 March 2008: \$1.48).

SmartFONZ had 25.8 million units on issue with a market capitalisation of \$39.1 million as at 31 March 2008.

#### Index Performance

The NZX 50 Portfolio Gross Index, which includes any dividends paid, returned negative 20.93% over the year. During the last three years the NZX 50 Portfolio Gross Index has had an annualised gross return of 3.71% per annum.

#### Performance of the NZX 50 Portfolio Gross Index



#### Key metrics for the financial year ended 31 March 2008

	31 March 2008	31 March 2007**	31 December 2006	31 December 2005	31 December 2004
NZSX 50 Portfolio Capital Index	1,511.49	1,894.13	1,893.50	1,514.94	1,473.87
Net asset value per unit	\$1.511	\$1.894	\$1.894	\$1.515	\$1.474
Distribution per unit over year*	6.40 cents	NIL	5.89 cents	4.57 cents	n/a
Number of Unitholders	3,118	2,922	2,786	2,535	2,337
Units on issue	25,849,151	21,864,461	20,091,960	19,356,940	11,941,479
Total value of Unitholders' funds	\$39,070,627	\$41,414,257	\$38,044,207	\$29,324,825	\$17,599,352

\* Before the deduction of management fees

\*\* The year end for the fund has been changed from December to March. The data quoted is for the three months to 31 March 2007



# smartFONZ

NZX 50 PORTFOLIO INDEX FUND (smartFONZ)

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REPORT TO UNITHOLDERS



FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008

Presented by Smartshares Limited, Manager of the NZX 50 Portfolio Index Fund

# FINANCIAL STATEMENTS

## INCOME STATEMENT

For the Year Ended 31 March 2008

	Note	12 Months Mar 2008 \$000	3 Months Mar 2007 \$000
<b>Income</b>			
Company dividends		1,996	335
Other income		39	-
Net changes in fair value of financial assets		(9,540)	(193)
<b>Total Net Income</b>		<b>(7,505)</b>	142
Management fees		(312)	(72)
<b>(Decrease)/Increase in Net Assets Attributable to Unitholders Before Tax</b>		<b>(7,817)</b>	70
Tax (expense)/credit	4	(165)	6
<b>(Decrease)/Increase in Net Assets Attributable to Unitholders After Tax</b>		<b>(7,982)</b>	76

## CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

For the Year Ended 31 March 2008

	Note	12 Months Mar 2008 \$000	3 Months Mar 2007 \$000
Net assets attributable to Unitholders at beginning of period		41,255	37,347
(Decrease)/Increase in net assets attributable to Unitholders this period		(7,982)	76
Net subscriptions allotted	5	7,018	4,101
Distribution accrued to Unitholders	6	(1,558)	(269)
<b>Net Assets Attributable to Unitholders at End of Period</b>		<b>38,733</b>	41,255

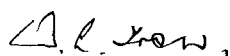
Comparative figures are for a 3 month period due to a change in balance date from 31 December to 31 March.

## BALANCE SHEET

As at 31 March 2008

	Note	Mar 2008 \$000	Mar 2007 \$000
<b>CURRENT ASSETS</b>			
Cash at call		648	883
Accounts receivable		215	1
Taxation receivable		222	179
<b>Total Current Assets</b>		<b>1,085</b>	1,063
<b>NON-CURRENT ASSETS</b>			
Investments in equity securities held at fair value	8	38,733	41,255
<b>Total Non-Current Assets</b>		<b>38,733</b>	41,255
<b>Total Assets</b>		<b>39,818</b>	42,318
<b>CURRENT LIABILITIES</b>			
Accounts payable		94	297
Management fees payable		46	25
Funds held for unit purchases		216	399
Distribution payable to Unitholders	6	709	342
Deferred Tax	4	20	-
<b>Total Liabilities excluding Net Assets Attributable to Unitholders</b>		<b>1,085</b>	1,063
<b>NET ASSETS ATTRIBUTABLE TO UNITHOLDERS</b>		<b>38,733</b>	41,255

The Board of Directors of Smartshares Limited authorised these financial statements for issue on 30 May 2008.



**D G Trow**  
 Chairman  
 Smartshares Limited



**G B D Brown**  
 Director  
 Smartshares Limited



## FINANCIAL STATEMENTS CONTINUED

### CASH FLOW STATEMENT

For the Year Ended 31 March 2008

	Note	12 Months Mar 2008 \$'000	3 Months Mar 2007 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Cash was provided from:</b>			
Company dividends received		1,782	335
Other income		39	-
<b>Cash inflows from operating activities</b>		<b>1,821</b>	<b>335</b>
<b>Cash was applied to:</b>			
Management fees paid		291	134
Tax paid directly by the fund		180	65
<b>Cash outflows from operating activities</b>		<b>471</b>	<b>199</b>
<b>Net Cash Flows from Operating Activities</b>		<b>1,350</b>	<b>136</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<b>Cash was applied to:</b>			
Net repayments to fund manager		272	-
<b>Cash outflows from investing activities</b>		<b>272</b>	<b>-</b>
<b>Net Cash Flows from Investing Activities</b>		<b>(272)</b>	<b>-</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>Cash was provided from:</b>			
Savings plan & direct purchase deposits		4,185	1,079
<b>Cash inflows from financing activities</b>		<b>4,185</b>	<b>1,079</b>
<b>Cash was applied to:</b>			
Purchase of financial assets		4,307	1,017
Dividend reinvestment	6	962	404
Distributions directly to unitholders	6	229	173
<b>Cash outflows from financing activities</b>		<b>5,498</b>	<b>1,594</b>
<b>Net Cash Flows from Financing Activities</b>		<b>(1,313)</b>	<b>(515)</b>
Net decrease in cash held		(235)	(379)
Opening cash balance		883	1,262
<b>Cash at End of Period</b>		<b>648</b>	<b>883</b>
<b>RECONCILIATION OF (DECREASE)/INCREASE IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS AFTER TAX WITH NET CASH FLOWS FROM OPERATING ACTIVITIES</b>			
(Decrease)/Increase in net assets attributable to unitholders		(7,982)	76
<b>Less non-cash items:</b>			
Net changes in fair value of financial assets		9,540	193
Operating movement in tax receivable		(35)	(70)
Movement in deferred tax		20	-
Movement in management fees payable		21	(62)
Operating movement in accounts receivable		(214)	(1)
<b>Net Cash Flows From Operating Activities</b>		<b>1,350</b>	<b>136</b>

Comparative figures are for a 3 month period due to a change in balance date from 31 December to 31 March.

# NOTES TO THE FINANCIAL STATEMENTS

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## 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 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 and distributions are confined only to dividends received from the portfolio of investments. All changes in the value of investments in equity securities, both realised and unrealised are recorded in the Income Statement.

The Fund's investment activities are managed by Smartshares Limited (the 'Investment Manager') tracking the NZX 50 Portfolio Index. As prescribed by the Trust Deed, the Fund only invests in the securities included in the NZX 50 Portfolio Index in proportion to the market capitalisation of the Index and the available capital of the Fund. The Fund's units are listed and traded on the New Zealand Exchange. Investments are valued at fair value according to last bid prices on the New Zealand Exchange on 31 March 2008 (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 New Zealand equivalents to International Financial Reporting Standards (NZ 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 NZD.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the 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 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 right 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 initially recognised at fair value. Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured at fair value.



# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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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 Income Statement when they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the Income Statement 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.

### **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.

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

### **2.4 Redeemable Units**

The Fund issues redeemable units, which are redeemable at the Unitholder's option and are classified as financial liabilities. Redeemable units can be put back to the Fund at any time, in accordance with the redemption rules as defined in the prospectus, for cash equal to a proportionate share of the Fund's net asset value. The redeemable unit is carried at the redemption amount that is payable at the balance sheet date if the holder exercises the right to put the unit back to the Fund.

Redeemable units are issued and redeemed at the Unitholder's option at prices based on the Fund's net assets 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 redeemable units by the total number of outstanding redeemable 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.

### **2.5 Dividend Revenue**

Company dividend income is recognised when the right to receive payment is established.

### **2.6 Distributions Payable to Holders of Redeemable Units**

The Fund issues redeemable units, which are redeemable at the Unitholder's option and are classified as financial liabilities. Redeemable units can be put back to the Fund at any time, in accordance with the redemption rules as defined in the prospectus, for cash equal to a proportionate share of the Fund's net asset value. The redeemable unit is carried at the redemption amount that is payable at the balance sheet date if the holder exercises the right to put the unit back to the Fund.

Redeemable units are issued and redeemed at the Unitholder's option at prices based on the Fund's net assets 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 redeemable units by the total number of outstanding redeemable 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.

## **2.7 Taxation**

The fund is domiciled in New Zealand and had a binding ruling from the New Zealand Inland Revenue Department which expired on 30th September 2007. The binding ruling stated that any gains realised from the sale of shares, in order to match the composition and weighting of the Index or to fund redemption of units, was not taxable to the Fund. The Fund was registered as a Portfolio Investment Entity (PIE) from 1st October 2007.

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) from the entities listed in Note 8. 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 Comparatives**

Comparative figures where necessary have been restated to correspond to the current year classifications. Comparative figures are for a 3 month period due to a change in balance date from 31 December to 31 March.

# **3. Financial Risk Management**

The Fund's activities expose it to a variety of financial risks: market risk, credit 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.

## **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:



# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

	Mar 2008 \$000	Mar 2007 \$000
Cash	648	883
Accounts receivable	215	1
Investments	38,733	41,255

### 3.3 Liquidity risk

The Fund is exposed to daily cash redemptions. The Fund's listed securities are considered readily realisable, as they are listed on the New Zealand exchange.

## 4. Taxation

	12 Months Mar 2008 \$000	3 Months Mar 2007 \$000
<b>INCOME TAX EXPENSE</b>		
(Decrease)/Increase in net assets attributable to Unitholders before tax	(7,817)	70
Add back management fees	312	72
Add back net changes in fair value of financial assets	9,540	193
Non-taxable income	(196)	-
Fully imputed accrued dividends	(149)	-
Gross up of FWT and RWT withheld on dividends	32	-
Gross up of imputation credits	578	165
Unrealised losses assessable for FIF tax	(18)	-
Taxable income on FDR securities	1	-
<b>Taxable income</b>	<b>2,283</b>	<b>500</b>
Taxation at 33%	753	165
Less imputation credits and other tax credits	(610)	(165)
Change in corporate tax rate	(1)	-
Prior period adjustment	23	(6)
<b>Tax expense/(credit)</b>	<b>165</b>	<b>(6)</b>
<b>DEFERRED TAX</b>		
Opening balance	-	-
Current year movement	(21)	-
Change in corporate tax rate	1	-
<b>Closing balance</b>	<b>(20)</b>	<b>-</b>
<b>IMPUTATION CREDITS</b>		
Opening balance	169	164
Imputation credits received during the period	578	165
Net tax paid during the period	79	147
	826	476
Credits attached to distributions paid	(611)	(307)
Prior period adjustment	16	-
<b>Credits available for future distributions</b>	<b>231</b>	<b>169</b>



	12 Months Mar 2008 \$000	3 Months Mar 2007 \$000
<b>DIVIDEND WITHHOLDING PAYMENT CREDITS</b>		
Opening balance	38	46
DWP credits received during the period	113	43
Credits attached to distributions paid	(102)	(51)
Prior period adjustment	28	-
<b>Closing balance</b>	<b>77</b>	<b>38</b>

The tax rate used in the above reconciliation is the corporate rate of 33%. There has been a change in the corporate tax rate from 33% to 30% from 1 April 2008. The deferred tax balance at 31 March 2008 is calculated using the new corporate tax rate, and the adjustment above shows the effect of the change in rate of deferred tax.

## 5. Redeemable Units

All issued units are fully paid and redeemable, and have been admitted to the official listing of the New Zealand Exchange. The Fund's capital is represented by these redeemable 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 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.

To determine the net asset value of the Fund for subscriptions and redemptions, financial assets have been valued based on the last traded market prices as of the close of business on the relevant trading day.

## 6. Distribution to Unitholders

	Total attributed to Unitholders Mar 2008 \$000	Total attributed to Unitholders Mar 2007 \$000
Distribution payable at beginning of period	342	650
Distribution accrued to unitholders	1,558	269
	<b>1,900</b>	919
Distributed to Unitholders	(1,191)	(577)
<b>Distribution payable to Unitholders</b>	<b>709</b>	342

## 7. Related Parties

The Fund is managed by Smartshares Limited (the 'Investment Manager'), a wholly owned subsidiary of New Zealand Exchange Limited. Smartshares Limited receives management fees directly from the Unitholders. 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 management fees for the year ended 31 March 2008 amounted to \$312,000 (three months ending 31 March 2007 \$72,000), with \$46,000 (Mar 2007: \$25,000) outstanding accrued fees due to Smartshares Limited at the end of the period. At 31 March 2008 the Fund has a receivable from Smartshares Limited of \$2,000 (Mar 2007 payable of \$295,000).



## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 8. Investments in Equity Securities held at Fair Value as at 31 March 2008

Company	Number of Securities	Fair Value \$
Air New Zealand Limited	356,880	456,806
AMP Limited	61,681	548,961
AMP NZ Office Trust	769,109	861,402
APN News & Media Limited	210,576	1,118,081
Auckland International Airport Limited	863,534	1,960,222
Australia and New Zealand Banking Group Limited	29,927	763,139
Cavalier Corporation Limited	53,648	134,656
Contact Energy Limited	301,802	2,384,236
Ebos Group Limited	61,883	300,751
Fisher & Paykel Appliances Holdings Limited	410,673	960,975
Fisher & Paykel Healthcare Corporation Limited	633,943	1,851,114
Fletcher Building Limited	227,923	1,903,157
Freightways Limited	185,594	623,596
Goodman Fielder Limited	695,135	1,355,513
Goodman Property Trust	1,012,337	1,346,408
Guinness Peat Group Plc	1,455,378	2,357,712
Hallenstein Glasson Holdings Limited	68,827	256,036
Hellaby Holdings Limited	26,398	45,405
Infratil Limited	638,079	1,352,728
ING Medical Properties Trust	144,580	164,821
ING Property Trust	520,651	489,412
Kiwi Income Property Trust	1,035,647	1,253,133
Lion Nathan Limited	34,767	348,195
Mainfreight Limited	113,633	642,027
Methven Limited	47,022	66,771
Michael Hill International Limited	279,606	243,257
New Zealand Exchange Limited	35,008	254,158
New Zealand Oil and Gas Limited	378,311	506,937
New Zealand Refining Company Limited	50,216	351,010
Nuplex Industries Limited	116,895	707,215
NZ Farming Systems Uruguay Limited	297,175	413,073
PGG Wrightson Limited	201,924	417,983
Port of Tauranga Limited	87,079	522,474
Property for Industry Limited	303,751	373,614
Pumpkin Patch Limited	178,726	323,494
Rakon Limited	99,643	283,983

<b>Company</b>	<b>Number of Securities</b>	<b>Fair Value \$</b>
Ryman Healthcare Limited	721,471	1,233,715
Sanford Limited	70,746	293,596
Skellerup Holdings Limited	99,069	76,283
Sky City Entertainment Group Limited	296,205	1,092,996
Sky Network Television Limited	438,651	2,096,752
Steel & Tube Holdings Limited	62,026	173,673
Telecom Corporation of New Zealand Limited	485,932	1,817,386
Telstra Corporation Limited	21,312	103,363
The Warehouse Group Limited	128,481	751,614
Tourism Holdings Limited	127,476	217,984
Tower Limited	221,303	398,345
TrustPower Limited	75,476	566,070
Vector Limited	408,820	703,170
Westpac Banking Corporation	46,887	1,265,949
		<b>38,733,351</b>

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 2008 was \$38,733,351 (Mar 2007: \$41,255,468). The investments are registered in the name of The New Zealand Guardian Trust Company Limited, the custodian of the Fund.

## 9. Unitholders' Funds

As at 31 March 2008 there were 25,849,151 (Mar 2007: 21,864,461) units on issue. Due to the requirement of NZ 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 net asset value of each unit at 31 March 2008 was \$1.5115 (Mar 2007: \$1.8941).

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 2008 was \$1.4984 (Mar 2007: \$1.8869).

## 10. Events after the Balance Sheet Date

There were no post-balance sheet events.

## 11. Contingent Liabilities

There are no known contingent liabilities as at balance date (Mar 2007: nil).



## UNITHOLDER INFORMATION

### Distribution of security holders and security holdings as at 31 March 2008

	No. of holders	% of holders	No. of securities	% of securities
1 to 4,999	1,908	61.19%	4,153,045	16.07%
5,000 to 49,999	1,175	37.68%	14,584,596	56.42%
50,000 to 499,999	32	1.03%	2,557,654	9.89%
500,000 and above	3	0.10%	4,553,856	17.62%
<b>Total</b>	<b>3,118</b>	<b>100.00%</b>	<b>25,849,151</b>	<b>100.00%</b>

### 20 Largest registered holders of quoted equity securities as at 31 March 2008

Full Name	Total	Percentage
FNZ Custodians Limited	2,320,669	8.98%
Investment Custodial Services Limited (C a/c)	1,677,432	6.49%
NZGT Superannuation Trustees Limited (Smartkiwi Growth Fund a/c)	555,755	2.15%
Presbyterian Church Property Trustees	353,394	1.37%
Lola Nominees Limited	150,232	0.58%
NZGT Superannuation Trustees Limited (Smartkiwi Balance Fund a/c)	118,961	0.46%
Investment Custodial Services Limited (990016624)	102,269	0.40%
Tahi Ventures Limited	92,961	0.36%
National Nominees Limited	91,000	0.35%
Peter Eric Tyndel	88,915	0.34%
Trevor Paul John Fitzjohn & John Livingston Marshall	87,644	0.34%
Peter Leonard Boyle & Leonard Anthony Boyle & Timothy Campbell Boyle (Terry Boyle Memorial a/c)	84,867	0.33%
Graham Dixon Wrigley & Simon Redding Makgill (F W Skeet a/c)	82,864	0.32%
Thomas William Schnackenberg & Annette Helen Schnackenberg	80,000	0.31%
Wayne Richard Jackson	75,269	0.29%
Stephen James McKilliam & Marion Joyce McKilliam & Garry William Davidson (McKilliam Family a/c)	70,305	0.27%
John David Rowell & Georgia Tina Rowell	66,034	0.26%
Custodial Services Limited (3 a/c)	63,386	0.25%
Investment Custodial Services Limited (990016607)	61,535	0.24%
Investment Custodial Services Limited (990017249)	60,801	0.24%
	<b>6,284,293</b>	<b>24.33%</b>

### Substantial Security Holders

As at 31 March 2008, the Fund has not received any notices from Substantial Security Holders pursuant to section 26 of the Securities Amendment Act 1988.

**Directors Interests in units as at 31 March 2008**

	<b>Beneficial</b>	<b>Non-Beneficial</b>
Donald Trow	-	15,091
Mark Weldon	-	161,039
Geoffrey Brown	-	37,731

**Waivers granted**

New Zealand Exchange Limited has granted, either fully, partially or subject to conditions, the following waivers from the Listing Rules that were applicable at 31 March 2008:

Listing Rules: 1.9.1, 3.1.1(a), 3.1.1(b), 3.1.3, 3.3.1(c) to 3.3.1C, 3.3.2 to 3.3.12, 3.4, 3.5, 3.6, Section 4, 7.1.7, 7.1.11, 7.3, 7.5, 7.61 to 7.6.3, 7.11.1, 8.2.1 to 8.2.3, 8.3.1, 9.1.1(b), 9.2.1, 10.4.2, 10.5.1(b), 10.5.2, 10.8.1(a), 11.2.3, 11.1.1, and Appendix 2.





## **Audit report**

### **To the Unitholders of NZX 50 Portfolio Index Fund**

We have audited the financial statements on pages 34 to 43. The financial statements provide information about the past financial performance of NZX 50 Portfolio Index Fund ("the Fund") and its financial position as at 31 March 2008. This information is stated in accordance with the accounting policies set out on pages 37 to 39.

### **Managers' responsibilities**

The Funds Manager is responsible for the preparation of financial statements which give a true and fair view of the financial position of the Fund as at 31 March 2008 and the results of its operations and cash flows for the year ended on that date.

### **Auditors' responsibilities**

It is our responsibility to express an independent opinion on the financial statements presented by the Manager and report our opinion to you.

### **Basis of opinion**

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

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

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

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

### **Unqualified opinion**

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

In our opinion:

- proper accounting records have been kept by the Fund as far as appears from our examination of those records;
- the financial statements on pages 34 to 43:
  - comply with New Zealand generally accepted accounting practice;
  - give a true and fair view of the financial position of the Fund as at 31 March 2008 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 30 May 2008 and our unqualified opinion is expressed as at that date.

  
Wellington



## NZX AUSTRALIAN MIDCAP INDEX FUND (smartMOZY)

### PERFORMANCE FOR THE FINANCIAL YEAR ENDED 31 MARCH 2008

#### Fund Performance

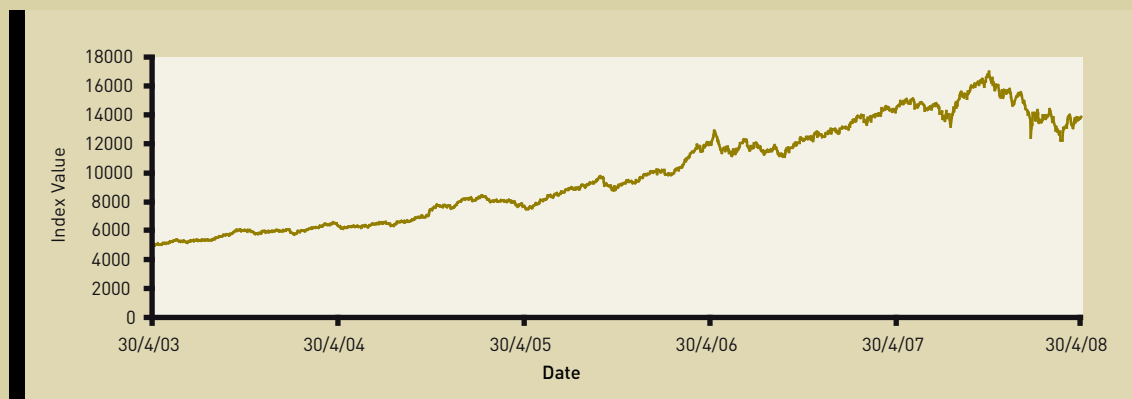
For the year to 31 March 2008, the NZX Australian MidCap Fund (smartMOZY) returned negative 11.55% before the payment of any dividends. For the full year, distributions totalled 18.93 cents per unit gross\*. This equates to a gross dividend yield of 3.13% based on the market price at as at 31 March 2008 (market price at 31 March 2008: \$6.05).

SmartMOZY had 9.4 million units on issue with a market capitalisation of NZ\$59.1 million as at 31 March 2008.

#### Index Performance

The S&P/ASX MidCap 50 Accumulation Index, which includes dividends paid, returned negative 10.56% over the year. During the last three years the S&P/ASX MidCap 50 Accumulation Index has had an annualised gross return of 14.43% per annum.

#### Performance of the S&P/ASX Midcap Gross Index (NZD)



#### Key metrics for the financial year ended 31 March 2008

	31 March 2008	31 March 2007**	31 December 2006	31 December 2005	31 December 2004
S&P/ASX MidCap 50 Index (NZD)	6,311.42	7,042.62	6,568.94	5,183.19	4,441.92
Net asset value per unit (NZD)	\$6.31	\$7.04	\$6.56	\$5.18	\$4.44
Distribution per unit over year*	18.93 cents	10.29 cents	18.83 cents	14.00 cents	n/a
Number of Unitholders	2,727	2,459	2,655	2,410	2,164
Units on issue	9,365,281	9,339,744	9,338,457	8,756,347	8,571,445
Total value of Unitholders' funds (NZD)	\$59,108,247	\$65,776,258	\$61,343,765	\$45,385,992	\$38,075,216

\* Before the deduction of management fees

\*\* The year end for the fund has been changed from December to March. The data quoted is for the three months to 31 March 2007



# smartMOZY

NZX AUSTRALIAN MIDCAP INDEX FUND (smartMOZY)

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REPORT TO UNITHOLDERS



**FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008**

Presented by Smartshares Limited, Manager of the NZX Australian  
Midcap Index Fund

# FINANCIAL STATEMENTS

## INCOME STATEMENT

For the Year Ended 31 March 2008

	Note	12 Months Mar 2008 \$000	3 Months Mar 2007 \$000
<b>Income</b>			
Company dividends		2,219	502
Other income		83	-
Net changes in fair value of financial assets		(6,725)	4,568
<b>Total Net Income</b>		<b>(4,423)</b>	5,070
Management fees		(517)	(120)
<b>(Decrease)/Increase in Net Assets Attributable to Unitholders Before Tax</b>		<b>(4,940)</b>	4,950
Tax expense	4	(1,028)	(497)
<b>(Decrease)/Increase in Net Assets Attributable to Unitholders After Tax</b>		<b>(5,968)</b>	4,453

## CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

For the Year Ended 31 March 2008

	Note	12 Months Mar 2008 \$000	3 Months Mar 2007 \$000
Net assets attributable to Unitholders at beginning of period		65,512	61,054
(Decrease)/Increase in net assets attributable to Unitholders this period		(5,968)	4,453
Net subscriptions redeemed	5	(395)	(27)
Distribution accrued to Unitholders	6	(674)	32
<b>Net Assets Attributable to Unitholders at End of Period</b>		<b>58,475</b>	65,512

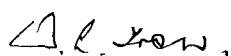
Comparative figures are for a 3 month period due to a change in balance date from 31 December to 31 March.

## BALANCE SHEET

As at 31 March 2008

	Note	Mar 2008 \$000	Mar 2007 \$000
<b>CURRENT ASSETS</b>			
Cash at call		342	812
Accounts receivable		373	453
Taxation receivable/(payable)		390	(125)
<b>Total Current Assets</b>		<b>1,105</b>	<b>1,140</b>
<b>NON-CURRENT ASSETS</b>			
Investments in equity securities held at fair value	8	58,475	65,595
<b>Total Non-Current Assets</b>		<b>58,475</b>	<b>65,595</b>
<b>Total Assets</b>		<b>59,580</b>	<b>66,735</b>
<b>CURRENT LIABILITIES</b>			
Accounts payable		338	464
Management fees payable		83	42
Funds held for unit purchases		205	198
Distribution payable to Unitholders	6	367	370
Deferred tax	4	112	149
<b>Total Liabilities excluding Net Assets Attributable to Unitholders</b>		<b>1,105</b>	<b>1,223</b>
<b>NET ASSETS ATTRIBUTABLE TO UNITHOLDERS</b>		<b>58,475</b>	<b>65,512</b>

The Board of Directors of Smartshares Limited authorised these financial statements for issue on 30 May 2008.



**D G Trow**  
 Chairman  
 Smartshares Limited



**G B D Brown**  
 Director  
 Smartshares Limited



## FINANCIAL STATEMENTS CONTINUED

### CASH FLOW STATEMENT

For the Year Ended 31 March 2008

	Note	12 Months Mar 2008 \$000	3 Months Mar 2007 \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Cash was provided from:</b>			
Company dividends received		2,299	451
Other income		83	-
<b>Cash inflows from operating activities</b>		<b>2,382</b>	<b>451</b>
<b>Cash was applied to:</b>			
Management fees paid		476	224
Tax paid directly by the fund		1,706	139
<b>Cash outflows from operating activities</b>		<b>2,182</b>	<b>363</b>
<b>Net Cash Flows from Operating Activities</b>		<b>200</b>	<b>88</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>Cash was provided to:</b>			
Savings plan & direct purchase deposits		2,892	786
Proceeds from sale of investments	6	679	929
<b>Cash inflows from financing activities</b>		<b>3,571</b>	<b>1,715</b>
<b>Cash was applied to:</b>			
Purchase of financial assets		2,885	1,719
Distributions paid to Unitholders	6	594	147
Distributions paid for dividend reinvestment	6	762	233
<b>Cash outflows from financing activities</b>		<b>4,241</b>	<b>2,099</b>
<b>Net Cash Flows from Financing Activities</b>		<b>(670)</b>	<b>(384)</b>
Net decrease in cash held		(470)	(296)
Opening cash balance		812	1,108
<b>Cash at End of Period</b>		<b>342</b>	<b>812</b>
<b>RECONCILIATION OF (DECREASE)/INCREASE IN NET ASSETS ATTRIBUTABLE AFTER TAX TO UNITHOLDERS WITH NET CASH FLOWS FROM OPERATING ACTIVITIES</b>			
(Decrease)/Increase in net assets attributable to Unitholders After Tax		(5,968)	4,453
<b>Less non-cash items:</b>			
Net changes in fair value of financial assets		6,725	(4,568)
Operating movement in taxation receivable/payable		(515)	342
Movement in deferred tax		(37)	16
Movement in management fees payable		41	(104)
Movement in accounts receivable		80	(51)
Operating movement in accounts receivable		(126)	-
<b>Net Cash Flows From Operating Activities</b>		<b>200</b>	<b>88</b>

Comparative figures are for a 3 month period due to a change in balance date from 31 December to 31 March.

## NOTES TO THE FINANCIAL STATEMENTS

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### 1. General Information

The NZX Australian 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 10 August 2004. The Fund is an Issuer as defined in the Financial Reporting Act 1993 and these financial statements are presented in compliance with the Act. The Fund holds a portfolio of marketable securities for the long term as an investment vehicle for individual Unitholders and distributions are confined only to dividends received from the portfolio of investments. All changes in the value of investments, both realised and unrealised are recorded in the Income Statement.

The Fund's investment activities are managed by Smartshares Limited (the 'Investment Manager') tracking the NZX Australian Midcap Index. As prescribed by the Trust Deed, the Fund only invests in the securities included in the NZX Australian Midcap 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 New Zealand Exchange. Investments are valued at fair value according to last bid prices on the Australian Exchange on 31 March 2008 (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 New Zealand equivalents to International Financial Reporting Standards (NZ 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 NZD.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the 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 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 right to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.



# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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## *(c) Measurement*

Financial assets at fair value through profit or loss are initially recognised at fair value. Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured 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 Income Statement when they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the Income Statement 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.

### **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.

Subscriptions subsequent to the initial public offering can be made in the form of baskets of constituent securities of the NZX Australian Midcap Index (i.e. not for cash) and therefore have not been included in the Cash Flow Statement. Redemptions can also be made in the form of baskets and therefore have not been included in the Cash Flow Statement.

### **2.4 Redeemable Units**

The Fund issues redeemable units, which are redeemable at the Unitholder's option and are classified as financial liabilities. Redeemable units can be put back to the Fund at any time, in accordance with the redemption rules as defined in the prospectus, for cash equal to a proportionate share of the Fund's net asset value. The redeemable unit is carried at the redemption amount that is payable at the balance sheet date if the holder exercises the right to put the unit back to the Fund.

Redeemable units are issued and redeemed at the Unitholder's option at prices based on the Fund's net assets 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 redeemable units by the total number of outstanding redeemable 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.

### **2.5 Dividend Revenue**

Company dividend income is recognised when the right to receive payment is established.

### **2.6 Distributions Payable to Holders of Redeemable Units**

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

Distribution of this income is made as at 20 March (record date 29 February) and 20 September (record date 31 August) each year.

## **2.7 Taxation**

The fund is domiciled in New Zealand and had a binding ruling from the New Zealand Inland Revenue Department which expired on 30th September 2007. The binding ruling stated that any gains realised from the sale of shares, in order to match the composition and weighting of the Index or to fund redemption of units, was not taxable to the Fund. The Fund was registered as a Portfolio Investment Entity (PIE) from 1st October 2007.

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) from the entities listed in Note 8. 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 Comparatives**

Comparative figures where necessary have been restated to correspond to the current year classifications. Comparative figures are for a 3 month period due to a change in balance date from 31 December to 31 March.

# **3. Financial Risk Management**

The Fund's activities expose it to a variety of financial risks: market risk, credit risk, liquidity risk and currency 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.

## **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:



## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

	Mar 2008 \$000	Mar 2007 \$000
Cash	342	812
Accounts receivable	373	453
Investments	58,475	65,595

### 3.3 Liquidity risk

The Fund is exposed to daily cash redemptions. 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 2008 \$000	Mar 2007 \$000
<b>ASSETS</b>		
Investments in equity securities held at fair value	58,475	65,595

## 4. Taxation

	12 Months Mar 2008 \$000	3 Months Mar 2007 \$000
<b>INCOME TAX EXPENSE</b>		
(Decrease)/Increase in net assets attributable to Unitholders before tax	(4,940)	4,950
Add back management fees	517	120
Add back net changes in fair value of financial assets	6,725	(4,568)
Unrealised gains assessable for FIF Tax	613	210
Taxable income on FDR securities	414	-
Gross up of FWT withheld on dividends	72	41
Dividends subject to FDR regime	(347)	-
Income included for accounting, non-taxable	(82)	-
Gross up of imputation credits	5	-
<b>Taxable income</b>	<b>2,977</b>	<b>753</b>
Taxation at 33%	982	248
Less tax credits and imputation credits	(82)	(42)



	12 Months Mar 2008 \$000	3 Months Mar 2007 \$000
Change in corporate tax rate	(11)	-
Prior period adjustment	139	291
<b>Tax expense</b>	<b>1,028</b>	497
<b>DEFERRED TAX</b>		
Opening balance	(149)	(133)
Current year movement	26	(16)
Change in corporate tax rate	11	-
<b>Closing balance</b>	<b>(112)</b>	(149)
<b>IMPUTATION CREDITS</b>		
Opening balance	82	82
Imputation credits received during the period	5	-
Net tax paid during the period	1,036	-
	<b>1,123</b>	82
Credits attached to distributions paid	(206)	-
<b>Credits available for future distribution</b>	<b>917</b>	82
<b>DIVIDEND WITHHOLDING PAYMENT CREDITS</b>		
Opening balance	53	(10)
DWP credits received during the period	531	342
Credits attached to distributions paid	(600)	(279)
Prior period adjustment	275	-
<b>Closing balance</b>	<b>259</b>	<b>53</b>

The tax rate used in the above reconciliation is the corporate rate of 33%. There has been a change in the corporate tax rate from 33% to 30% from 1 April 2008. The deferred tax balance at 31 March 2008 is calculated using the new corporate tax rate, and the adjustment above shows the effect of the change in rate of deferred tax.

## 5. Redeemable Units

All issued units are fully paid and redeemable, and have been admitted to the official listing of the New Zealand Exchange. The Fund's capital is represented by these redeemable 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 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.

To determine the net asset value of the Fund for subscriptions and redemptions, financial assets have been valued based on the last traded market prices as of the close of business on the relevant trading day.



# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 6. Distribution to Unitholders

	Total attributed to Unitholders Mar 2008 \$000	Total attributed to Unitholders Mar 2007 \$000
Distribution payable at beginning of period	370	781
Distribution accrued to unitholders	674	(32)
	1,044	749
Distributed to Unitholders	(1,356)	(379)
Transfer	679	-
<b>Distribution payable to Unitholders</b>	<b>367</b>	<b>370</b>

## 7. Related Parties

The Fund is managed by Smartshares Limited (the 'Investment Manager'), a wholly owned subsidiary of New Zealand Exchange Limited. Smartshares Limited receives management fees directly from the Unitholders. 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 management fees for the year to 31 March 2008 amounted to \$517,000 (three months ending 31 March 2007 \$120,000), with \$83,000 (Mar 2007: \$42,000) outstanding accrued fees due to Smartshares Limited at the end of the period. At 31 March 2008 the Fund has payables to Smartshares Limited of \$259,000 (Mar 2007 \$464,000).

## 8. Investments in Equity Securities held at Fair Value as at 31 March 2008

Company	Number of Securities	Fair Value A\$
A.B.C Learning Centres Limited	177,555	246,802
Allco Finance Group Limited	111,547	52,985
Asciano Group Limited	206,540	822,029
Aristocrat Leisure Limited	140,537	1,342,128
Billabong International Limited	65,111	833,421
Babcock & Brown Infrastructure Group	782,437	915,451
Bendigo Bank Limited	95,983	1,142,198
Boral Limited	223,631	1,382,040
Boart Longyear Limited	556,194	1,001,149
Bank of Queensland Limited	50,395	816,399
Coca-Cola Amatil Limited	181,255	1,533,417
Connecteast Group	479,120	622,856
CFS Retail Property Trust	688,660	1,466,846
Challenger Financial Services Group Limited	172,945	314,760
Consolidated Media Holdings Limited	157,564	587,714
Centro Properties Group	316,479	94,944

**NZX AUSTRALIAN MIDCAP INDEX FUND**  
**REPORT TO UNITHOLDERS**

<b>Company</b>	<b>Number of Securities</b>	<b>Fair Value A\$</b>
Cochlear Limited	20,525	1,120,870
Commonwealth Property Office Fund	532,914	703,446
Computershare Limited	164,383	1,438,351
CSR Limited	368,010	1,170,272
Caltex Australia Limited	50,555	647,610
David Jones Limited	179,015	649,824
Downer Edi Limited	118,165	732,623
Dyno Nobel Limited	264,204	671,078
Dexus Property Group	1,138,420	1,889,777
Futuris Corporation Limited	285,677	537,073
Goodman Fielder Limited	496,184	883,208
Harvey Norman Holdings Limited	221,426	863,561
ING Industrial Fund	372,702	752,858
ING Office Fund	471,274	610,300
Incitec Pivot Limited	18,881	2,596,138
James Hardie Industries N.V.	173,151	1,080,462
Lihir Gold Limited	713,193	2,560,363
Lion Nathan Limited	108,099	931,813
Macquarie Communications Infrastructure Group	161,128	660,625
Macquarie Countrywide Trust	427,939	492,130
Macquarie Office Trust	684,298	622,711
Metcash Limited	287,469	1,164,249
Oil Search Limited	343,420	1,603,771
Onesteel Limited	328,207	2,077,550
Oxiana Limited	577,965	1,837,929
Paladin Resources Limited	230,461	1,173,047
Perpetual Limited	15,084	807,899
Sims Group Limited	37,800	1,088,640
Sonic Healthcare Limited	112,985	1,552,414
Transfield Services Limited	53,836	578,737
Tattersalls Limited	476,761	1,644,825
United Group Limited	61,308	729,565
Valad Property Group	601,407	568,330
West Australian Newspaper Holdings Limited	65,442	706,774
		<b>50,323,962</b>

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 2008 was A\$50,323,962 where the New Zealand dollar equivalent was NZ\$58,475,437 (Mar 2007: NZ\$65,595,435), the exchange rate used was \$0.8606 (Mar 2007: \$0.8817). The investments are registered in the name of Custodial Services Limited, the custodian of the Fund.



# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 9. Unitholders' Funds

As at 31 March 2008 there were 9,365,281 (Mar 2007: 9,339,744) units on issue. Due to the requirements of NZ 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 net asset value of each unit at 31 March 2008 was \$6.3114 (Mar 2007: \$7.0426).

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 2008 was \$6.2439 (Mar 2007: \$7.0233).

## 10. Events after the Balance Sheet Date

There were no post-balance sheet events.

## 11. Contingent Liabilities

There are no known contingent liabilities as at balance date (Mar 2007: nil).

# UNITHOLDER INFORMATION

### Distribution of security holders and security holdings as at 31 March 2008

	No. of holders	% of holders	No. of securities	% of securities
1 to 4,999	2,358	86.46%	3,569,078	38.11%
5,000 to 49,999	358	13.13%	3,576,620	38.19%
50,000 to 499,999	10	0.37%	1,415,625	15.12%
500,000 and above	1	0.04%	803,958	8.58%
Total	2,727	100.00%	9,365,281	100.00%

### 20 Largest registered holders of quoted equity securities as at 31 March 2008

Full Name	Total	Percentage
Custodial Services Limited (3 a/c)	803,958	8.58%
Custodial Services Limited (2 a/c)	352,355	3.76%
FNZ Custodians Limited	260,888	2.79%

Full Name	Total	Percentage
Custodial Services Limited (4 a/c)	137,110	1.46%
Forsyth Barr Custodians Limited (1M a/c)	120,043	1.28%
Forsyth Barr Custodians Limited ( 1L a/c)	118,751	1.27%
Investment Custodial Services Limited (C a/c)	108,631	1.16%
NZGT Superannuation Trustees Limited (Smartkiwi Growth Fund a/c)	99,872	1.07%
Custodial Services Limited (1 a/c)	89,969	0.96%
Custodial Services Limited (8 a/c)	75,380	0.80%
Flora Fitzherbert Rudman	52,626	0.56%
Greenlane Research & Educational Fund Board	49,000	0.52%
Mrs Elwyn Dianne Mayall	42,977	0.46%
Custodial Services Limited (6 a/c)	42,200	0.45%
Andrew James Grant	39,505	0.42%
Asset Custodian Nominees Limited	37,865	0.40%
Gavin Ronald Walker & Susan Eleanor Walker & William Malcolm Patterson (Tralee a/c)	35,814	0.38%
Gavin Ronald Walker & Susan Eleanor Walker & William Malcolm Patterson (Waiata a/c)	35,814	0.38%
Christopher Graham Paice	31,855	0.34%
Michael Lee Bowden	30,238	0.32%
	<b>2,564,851</b>	<b>27.39%</b>

### Substantial Security Holders

As at 31 March 2008, the Fund has not received any notices from Substantial Security Holders pursuant to section 26 of the Securities Amendment Act 1988.

### Directors Interests in units as at 31 March 2008

	Beneficial	Non-Beneficial
Donald Trow	-	5,729
Mark Weldon	-	18,048
Geoffrey Brown	2,793	-

### Waivers granted

New Zealand Exchange Limited has granted, either fully, partially or subject to conditions, the following waivers from the Listing Rules that were applicable at 31 March 2008:

Listing Rules: 1.9.1, 3.1.1(a), 3.1.1(b), 3.1.3, 3.3.1(c) to 3.3.1C, 3.3.2 to 3.3.12, 3.4, 3.5, 3.6, Section 4, 7.1.7, 7.1.11, 7.3, 7.5, 7.61 to 7.6.3, 7.11.1, 8.2.1 to 8.2.3, 8.3.1, 9.1.1(b), 9.2.1, 10.4.2, 10.5.1(b), 10.5.2, 10.8.1(a), 11.2.3, 11.1.1, and Appendix 2.





## **Audit report**

### **To the Unitholders of NZX Australian Midcap Index Fund**

We have audited the financial statements on pages 50 to 60. The financial statements provide information about the past financial performance of NZX Australian Midcap Index Fund ("the Fund") and its financial position as at 31 March 2008. This information is stated in accordance with the accounting policies set out on pages 53 to 55.

### **Managers' responsibilities**

The Funds Manager is responsible for the preparation of financial statements which give a true and fair view of the financial position of the Fund as at 31 March 2008 and the results of its operations and cash flows for the year ended on that date.

### **Auditors' responsibilities**

It is our responsibility to express an independent opinion on the financial statements presented by the Manager and report our opinion to you.

### **Basis of opinion**

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

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

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

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

### **Unqualified opinion**

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

In our opinion:

- proper accounting records have been kept by the Fund as far as appears from our examination of those records;
- the financial statements on pages 50 to 60:
  - comply with New Zealand generally accepted accounting practice;
  - give a true and fair view of the financial position of the Fund as at 31 March 2008 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 30 May 2008 and our unqualified opinion is expressed as at that date.

Wellington



## NZX AUSTRALIAN 20 LEADERS INDEX FUND (smartOZZY)

### PERFORMANCE FOR THE FINANCIAL YEAR ENDED 31 MARCH 2008

#### Fund Performance

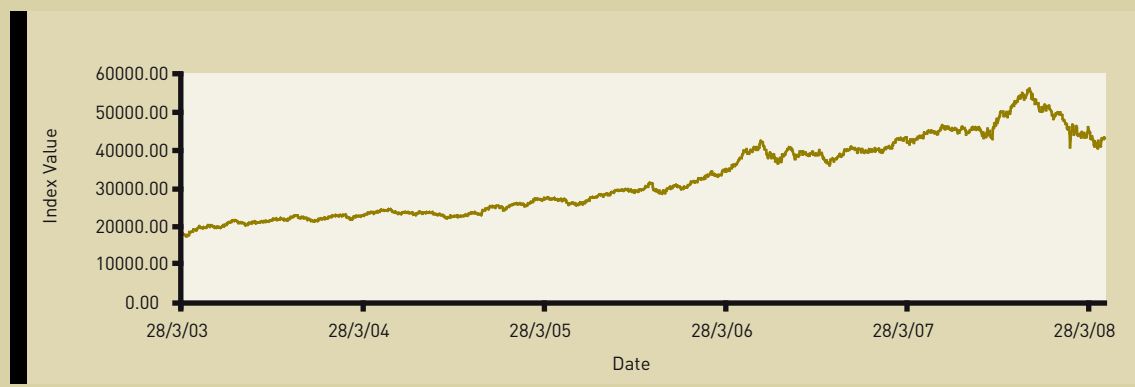
For the year to 31 March 2008, the NZX Australian 20 Leaders Fund (smartOZZY) returned negative 7.30% before the payment of any dividends. For the full year, distributions totalled 9.36 cents per unit gross\*. This equates to a gross dividend yield of 2.84% based on the market price as at 31 March 2008 (market price at 31 March 2008 \$3.30).

smartOZZY had 31.1 million units on issue with a market capitalisation of NZ\$106.7 million as at 31 March 2008.

#### Index Performance

The S&P/ASX 20 Accumulation Index, which includes dividends paid, returned negative 4.57% over the year. During the last five years the S&P/ASX 20 Accumulation Index has had an annualised gross return of 16.39% per annum.

#### Performance of the S&P/ASX 20 Gross Index (NZD)



#### Key metrics for the financial year ended 31 March 2008

	31 March 2008	31 March 2007	31 March 2006
S&P/ASX 20 Index (NZD)	3,423.35	3,609.83	3,249.97
Net asset value per unit (NZD)	\$3.42	\$3.61	\$3.25
Distribution per unit over year*	9.36 cents	11.00 cents	7.78 cents
Number of Unitholders	3,808	3,897	3,246
Units on issue	31,157,798	34,665,065	35,212,428
Total value of Unitholders' funds (NZD)	\$106,663,893	\$125,134,801	\$96,033,127

\* Before the deduction of management fees



# smartOZZY

NZX AUSTRALIAN 20 LEADERS INDEX FUND (smartOZZY)

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REPORT TO UNITHOLDERS



**FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008**

Presented by Smartshares Limited, Manager of the NZX Australian 20 Leaders Index Fund

# FINANCIAL STATEMENTS

## INCOME STATEMENT

For the Year Ended 31 March 2008

	Note	12 Months Mar 2008 \$000	12 Months Mar 2007 \$000
<b>Income</b>			
Company dividends		<b>4,796</b>	4,545
Net changes in fair value of financial assets		<b>(4,588)</b>	11,080
<b>Total Net Income</b>		<b>208</b>	15,625
Management fees		<b>(708)</b>	(586)
<b>(Decrease)/Increase in Net Assets Attributable to Unitholders Before Tax</b>		<b>(500)</b>	15,039
Tax expense	4	<b>(1,446)</b>	(1,454)
<b>(Decrease)/Increase in Net Assets Attributable to Unitholders After Tax</b>		<b>(1,946)</b>	13,585

## STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

For the Year Ended 31 March 2008

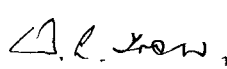

	Note	12 Months Mar 2008 \$000	12 Months Mar 2007 \$000
Net assets attributable to Unitholders at beginning of period		<b>125,014</b>	115,812
(Decrease)/Increase in net assets attributable to Unitholders this period		<b>(1,946)</b>	13,585
Net subscriptions redeemed	5	<b>(14,074)</b>	(1,878)
Distribution accrued to Unitholders	6	<b>(2,642)</b>	(2,505)
<b>Net Assets Attributable to Unitholders at End of Period</b>		<b>106,352</b>	125,014

## BALANCE SHEET

As at 31 March 2008

	Note	Mar 2008 \$000	Mar 2007 \$000
<b>CURRENT ASSETS</b>			
Cash at call		1,009	893
Accounts receivable		1,008	967
Taxation receivable		593	507
<b>Total Current Assets</b>		<b>2,610</b>	<b>2,367</b>
<b>NON-CURRENT ASSETS</b>			
Investments in equity securities held at fair value	8	106,280	124,943
<b>Total Non-Current Assets</b>		<b>106,280</b>	<b>124,943</b>
<b>Total Assets</b>		<b>108,890</b>	<b>127,310</b>
<b>CURRENT LIABILITIES</b>			
Accounts payable		584	473
Funds held for unit purchases		73	143
Management fees payable		52	56
Distribution payable to Unitholders	6	1,527	1,305
Deferred tax	4	302	319
<b>Total Liabilities excluding Net Assets Attributable to Unitholders</b>		<b>2,538</b>	<b>2,296</b>
<b>NET ASSETS ATTRIBUTABLE TO UNITHOLDERS</b>		<b>106,352</b>	<b>125,014</b>

The Board of Directors of Smartshares Limited and the Board of Directors of Trustees Executors Limited authorised these financial statements for issue on 30 May 2008.





**D G Trow**  
Chairman  
Smartshares Ltd

**G B D Brown**  
Director  
Smartshares Ltd

**P R Hocking**  
Director  
Trustees Executors Ltd

**D Gupta**  
Director  
Trustees Executors Ltd



## FINANCIAL STATEMENTS CONTINUED

### CASH FLOW STATEMENT

For the Year Ended 31 March 2008

	Note	12 Months Mar 2008 \$'000	12 Months Mar 2007 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Cash was provided from:</b>			
Company dividends received		4,755	4,150
<b>Cash inflows from operating activities</b>		<b>4,755</b>	<b>4,150</b>
<b>Cash was applied to:</b>			
Management fees paid		712	674
Tax paid directly by the fund		1,437	1,522
<b>Cash outflows from operating activities</b>		<b>2,149</b>	<b>2,196</b>
<b>Net Cash used in Operating Activities</b>		<b>2,606</b>	<b>1,954</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>Cash was provided from:</b>			
Savings plan & direct purchase deposits		1,066	1,249
<b>Cash inflows from financing activities</b>		<b>1,066</b>	<b>1,249</b>
<b>Cash was applied to:</b>			
Purchase of financial assets		1,136	1,106
Distributions paid to Unitholders (including dividend reinvestment)	6	2,420	2,409
<b>Cash outflows from financing activities</b>		<b>3,556</b>	<b>3,515</b>
<b>Net Cash Flows from Financing Activities</b>		<b>(2,490)</b>	<b>(2,266)</b>
Net increase/(decrease) in cash held		116	(312)
Opening cash balance		893	1,205
<b>Cash at End of Period</b>		<b>1,009</b>	<b>893</b>
<b>RECONCILIATION OF (DECREASE)/INCREASE IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS AFTER TAX WITH NET CASH FLOWS FROM OPERATING ACTIVITIES</b>			
(Decrease)/Increase in net assets attributable to unitholders		(1,946)	13,585
<b>Less non-cash items:</b>			
Net changes in fair value of financial assets		4,588	(11,080)
Movement in taxation receivable		(86)	(198)
Movement in deferred tax		(17)	130
Movement in management fee payable		(4)	(88)
Movement in accounts receivable		(41)	(395)
Operating movement in accounts payable		112	-
<b>Net Cash Flows from Operating Activities</b>		<b>2,606</b>	<b>1,954</b>

## NOTES TO THE FINANCIAL STATEMENTS

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### 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 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 and distributions are confined only to dividends received from the portfolio of investments. All changes in the value of investments, both realised and unrealised are recorded in the Income Statement.

The Fund's investment activities are managed by Smartshares Limited (the 'Investment Manager') tracking the NZX Australian 20 Leaders Index. As prescribed by the Trust Deed, the Fund only invests in the securities included in the NZX Australian 20 Leaders 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 New Zealand Exchange. Investments are valued at fair value according to last bid prices on the Australian Exchange on 31 March 2008 (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 New Zealand equivalents to International Financial Reporting Standards (NZ 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 NZD.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the 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 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 right to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.



# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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## *(c) Measurement*

Financial assets at fair value through profit or loss are initially recognised at fair value. Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured 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 Income Statement when they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the Income Statement 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.

### **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.

Subscriptions subsequent to the initial public offering can be made in the form of baskets of constituent securities of the NZX Australian 20 Leaders Index (i.e. not for cash) and therefore have not been included in the Cash Flow Statement. Redemptions can also be made in the form of baskets and therefore have not been included in the Cash Flow Statement.

### **2.4 Redeemable Units**

The Fund issues redeemable units, which are redeemable at the Unitholder's option and are classified as financial liabilities. Redeemable units can be put back to the Fund at any time, in accordance with the redemption rules as defined in the prospectus, for cash equal to a proportionate share of the Fund's net asset value. The redeemable unit is carried at the redemption amount that is payable at the balance sheet date if the holder exercises the right to put the unit back to the Fund.

Redeemable units are issued and redeemed at the Unitholder's option at prices based on the Fund's net assets 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 redeemable units by the total number of outstanding redeemable 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.

### **2.5 Dividend Revenue**

Company dividend income is recognised when the right to receive payment is established.

### **2.6 Distributions Payable to Holders of Redeemable Units**

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

Distribution of this income is made as at 20 June (record date 31 May) and 20 December (record date 30 November) each year.

## **2.7 Taxation**

The fund is domiciled in New Zealand and had a binding ruling from the New Zealand Inland Revenue Department which expired on 30th September 2007. The binding ruling stated that any gains realised from the sale of shares, in order to match the composition and weighting of the Index or to fund redemption of units, was not taxable to the Fund. The Fund was registered as a Portfolio Investment Entity (PIE) from 1st October 2007.

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) from the entities listed in Note 8. 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 Comparatives**

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

# **3. Financial Risk Management**

The Fund's activities expose it to a variety of financial risks: market risk, credit risk, liquidity risk and currency 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.

## **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:



## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

	Mar 2008 \$000	Mar 2007 \$000
Cash	1,009	893
Accounts receivable	1,008	967
Investments in equity securities held at fair value	106,280	124,943

### 3.3 Liquidity risk

The Fund is exposed to daily cash redemptions. 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 2008 \$000	Mar 2007 \$000
<b>ASSETS</b>		
Investments in equity securities held at fair value	106,280	124,943

## 4. Taxation

	Mar 2008 \$000	Mar 2007 \$000
<b>INCOME TAX EXPENSE</b>		
(Decrease)/Increase in net assets attributable to Unitholders before tax	(500)	15,039
Add back management fees	708	586
Add back net changes in fair value of financial assets	4,588	(11,080)
Gross up of FWT withheld on dividends	23	-
Dividends subject to FDR regime	(181)	-
Taxable income on FDR securities	167	-
<b>Taxable income</b>	<b>4,805</b>	<b>4,545</b>
Taxation at 33%	1,586	1,500
Less imputation credits and foreign income tax credits	(23)	(13)
Change in corporate tax rate	(30)	-
Prior period adjustment	(87)	(33)
<b>Tax expense</b>	<b>1,446</b>	<b>1,454</b>



	Mar 2008 \$000	Mar 2007 \$000
<b>DEFERRED TAX</b>		
Opening balance	(319)	(189)
Current year movement	(13)	(130)
Change in corporate tax rate	30	-
<b>Closing balance</b>	<b>(302)</b>	<b>(319)</b>
<b>IMPUTATION CREDITS</b>		
Opening balance	71	71
Imputation credits received during the period	-	-
Net tax paid during the period	66	-
	<b>137</b>	<b>71</b>
Credits attached to distributions paid	(66)	-
<b>Credits available for future distribution</b>	<b>71</b>	<b>71</b>
<b>DIVIDEND WITHHOLDING PAYMENT CREDITS</b>		
Opening balance	672	235
DWP credits received during the period	1,381	1,892
Credits attached to distributions paid	(732)	(1,455)
<b>Credits available for future distributions</b>	<b>1,321</b>	<b>672</b>

The tax rate used in the above reconciliation is the corporate rate of 33%. There has been a change in the corporate tax rate from 33% to 30% from 1 April 2008. The deferred tax balance at 31 March 2008 is calculated using the new corporate tax rate, and the adjustment above shows the effect of the change in rate of deferred tax.

## 5. Redeemable Units

All issued units are fully paid and redeemable, and have been admitted to the official listing of the New Zealand Exchange. The Fund's capital is represented by these redeemable 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 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.

To determine the net asset value of the Fund for subscriptions and redemptions, financial assets have been valued based on the last traded market prices as of the close of business on the relevant trading day.

## 6. Distribution to Unitholders

	Total attributed to Unitholders Mar 2008 \$000	Total attributed to Unitholders Mar 2007 \$000
Distribution payable at beginning of period	1,305	1,209
Distribution accrued to unitholders	2,642	2,505
	<b>3,947</b>	<b>3,714</b>
Distributed to Unitholders	(2,420)	(2,409)
<b>Distribution payable to Unitholders</b>	<b>1,527</b>	<b>1,305</b>



## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 7. Related Parties

The Fund is managed by Smartshares Limited (the 'Investment Manager'), a wholly owned subsidiary of New Zealand Exchange Limited. Smartshares Limited receives management fees directly from the Unitholders. 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 management fees for the year ended 31 March 2008 amounted to \$708,000 (March 2007 \$586,000), with \$52,000 (Mar 2007: \$56,000) outstanding accrued fees due to Smartshares Limited at the end of the period. At 31 March 2008 the Fund has payables to Smartshares Limited of \$472,000 (Mar 2007: \$473,000).

### 8. Investments in Equity Securities held at Fair Value as at 31 March 2008

Company	Number of Securities	Fair Value \$A
AMP Limited	271,165	2,117,799
Australian and New Zealand Banking Group Limited	277,325	6,253,679
BHP Billiton Limited	485,480	17,385,039
Brambles Limited	204,914	2,036,845
Commonwealth Bank of Australia Limited	190,363	7,941,944
CSL Limited	79,434	2,911,256
Foster's Group Limited	278,752	1,421,635
Macquarie Bank Limited	39,705	2,092,850
National Australia Bank Limited	236,371	7,076,948
QBE Insurance Group Limited	128,134	2,844,575
Rio Tinto Limited	40,927	5,011,102
St. George Bank Limited	80,662	2,064,947
Stockland Limited	212,011	1,462,876
Suncorp-Metway Limited	134,911	1,729,559
Telstra Corporation Limited	896,008	3,915,555
Telstra Corporation Limited – Installment Receipts	596,690	1,670,732
Westpac Banking Corporation	271,284	6,429,431
Westfield Group	253,693	4,490,366
Wesfarmers Limited	100,885	4,012,198
Woolworths Limited	175,697	5,042,504
Woodside Petroleum Limited	65,717	3,552,661
		<b>91,464,501</b>

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 2008 was A\$91,464,501 where the New Zealand dollar equivalent was NZ\$106,279,922 (Mar 2007: NZ\$124,942,706), the exchange rate used was \$0.8606 (Mar 2007: 0.8817). The investments are registered in the name of Custodial Services Limited, the custodian of the Fund.

## 9. Unitholders' Funds

As at 31 March 2008 there were 31,157,798 (Mar 2007: 34,665,065) units on issue. Due to the requirements of NZ 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 net asset value of each unit at 31 March 2008 was \$3.4233 (Mar 2007: \$3.6100).

NZ IFRS requires 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 2008 was \$3.4110 (Mar 2007: \$3.6040).

## 10. Events after the Balance Sheet Date

There were no post-balance sheet events.

## 11. Contingent Liabilities

There are no known contingent liabilities as at balance date (Mar 2007: nil).

# UNITHOLDER INFORMATION

### Distribution of security holders and security holdings as at 31 March 2008

	No. of holders	% of holders	No. of securities	% of securities
1 to 4,999	2,214	58.14%	5,500,503	17.65%
5,000 to 49,999	1,542	40.49%	17,821,754	57.20%
50,000 to 499,999	47	1.24%	4,551,498	14.61%
500,000 and above	5	0.13%	3,284,043	10.54%
Total	3,808	100.00%	31,157,798	100.00%



## FINANCIAL STATEMENTS CONTINUED

### 20 Largest registered holders of quoted equity securities as at 31 March 2008

Full Name	Total	Percentage
Brian Henry Statter Fraser & Timothy Peter Greville	1,051,609	3.38%
Custodial Services Limited (8 a/c)	608,833	1.95%
Custodial Services Limited (3 a/c)	607,540	1.95%
Kathy Ann Manson & Edward Colin Manson	516,061	1.66%
Courtenay Nominees Limited	500,000	1.60%
Michael Donald Wight & Geraldine Louise Wight	359,183	1.15%
Alan Gordon Smart	269,505	0.86%
Custodial Services Limited (2 a/c)	265,496	0.85%
FNZ Custodians Limited	262,161	0.84%
Aratrust Limited	241,500	0.78%
Flora Fitzherbert Rudman	150,000	0.48%
Judith Anne Knowles	135,688	0.44%
Nigel High & Hsiao Ming High	127,538	0.41%
New Zealand Methodist Trust Association	120,000	0.39%
Forsyth Barr Custodians Limited	109,232	0.35%
NZ Guardian Trust Co Limited	106,733	0.34%
Eeshala Nominees Limited	100,000	0.32%
Annette Marie Jennings & Stephen Gerard Florentine	93,664	0.30%
Stowehill Investments Limited	90,000	0.29%
Michael Donald Wight & Geraldine Louise Wight & David Leonard Gill	85,896	0.28%
	<b>5,800,639</b>	<b>18.62%</b>

### Substantial Security Holders

As at 31 March 2008, the Fund has not received any notices from Substantial Security Holders pursuant to section 26 of the Securities Amendment Act 1988.

### Directors Interests in units as at 31 March 2008

	Beneficial	Non-Beneficial
Donald Trow	-	2,970
Mark Weldon	-	-
Geoffrey Brown	-	-

### Waivers granted

New Zealand Exchange Limited has granted, either fully, partially or subject to conditions, the following waivers from the Listing Rules that were applicable at 31 March 2008:

Listing Rules: 1.9.1, 3.1.1(a), 3.1.1(b), 3.1.3, 3.3.1(c) to 3.3.1C, 3.3.2 to 3.3.12, 3.4, 3.5, 3.6, Section 4, 7.1.7, 7.1.11, 7.3, 7.5, 7.61 to 7.6.3, 7.11.1, 8.2.1 to 8.2.3, 8.3.1, 9.1.1(b), 9.2.1, 10.4.2, 10.5.1(b), 10.5.2, 10.8.1(a), 11.2.3, 11.1.1, and Appendix 2.



## **Audit report**

### **To the Unitholders of NZX Australian 20 Leaders Index Fund**

We have audited the financial statements on pages 66 to 75. The financial statements provide information about the past financial performance of NZX Australian 20 Leaders Index Fund ("the Fund") and its financial position as at 31 March 2008. This information is stated in accordance with the accounting policies set out on pages 69 to 71.

### **Managers' responsibilities**

The Funds Manager is responsible for the preparation of financial statements which give a true and fair view of the financial position of the Fund as at 31 March 2008 and the results of its operations and cash flows for the year ended on that date.

### **Auditors' responsibilities**

It is our responsibility to express an independent opinion on the financial statements presented by the Manager and report our opinion to you.

### **Basis of opinion**

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

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

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

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

### **Unqualified opinion**

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

In our opinion:

- proper accounting records have been kept by the Fund as far as appears from our examination of those records;
- the financial statements on pages 66 to 75:
  - comply with New Zealand generally accepted accounting practice;
  - give a true and fair view of the financial position of the Fund as at 31 March 2008 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 30 May 2008 and our unqualified opinion is expressed as at that date.

Wellington



# CORPORATE GOVERNANCE

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

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

## The Board

The board is currently comprised of one Independent non-executive director (the Chairman, Donald Trow) and two executive directors (Mark Weldon, and Geoffrey Brown). Both of the executive directors are employees of New Zealand Exchange Limited (NZX). Services are provided to Smartshares Limited by employees of NZX. The board is responsible for the direction and supervision of the business and affairs of the manager and its management of the Smartshares Funds. Responsibility for the day to day management of the manager and the Funds has been delegated to director of Smartshares Limited and chief executive of NZX, Mr Weldon.

## Committees

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

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

- There is an Audit Committee in place for each Fund;
- The waivers and the conditions are outlined in each Fund's Half Yearly and Annual Reports;
- At least one of Smartshares Limited's Directors sits on Smartshares Limited's Audit Committee for the Funds, whenever it convenes;
- Smartshares Limited's Audit Committee for each Fund has a majority of Directors who are Independent Directors of Smartshares Limited, or Independent Directors of NZX, or both;

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- 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 are no nomination or remuneration committees because the manager is a wholly-owned subsidiary of NZX which appoints the board of directors of the manager and sets the remuneration of the manager's employees. Furthermore, the Chairman receives director's fees from Smartshares Limited but otherwise no director receives any remuneration directly from Smartshares Limited. The manager is entitled to remuneration in respect of management of the funds. Information about the remuneration received by the Manager for the financial year ended March 2008 can be found in the financial statements for the Funds set out in this report.

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



## NOTES

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