



Guardian Mortgage Fund

Financial Statement for the year ended
31 March 2009

Guardian Trust



Contents

- Manager's Review page 3
- Questions & Answers page 4
- Income Statement page 6
- Statement of Movement in Unit Holders' Funds page 7
- Balance Sheet page 8
- Statement of Cash Flows page 9
- Notes to the Financial Statements page 10
- Audit Report page 27
- Offices page 28

Manager's Review

We present the financial statements for the Guardian Mortgage Fund for the period ended 31 March 2009.

The global economy has been operating under severe stress since 2007 and New Zealand, as part of that global economy, has not been immune. During 2008 world equity markets lost in the region of US\$30 trillion (around half their value). During the second half of 2008 US and European financial system conditions deteriorated significantly, especially following the failure or restructuring of major US and European institutions. In the second half of the year central banks responded to the intensifying risks with rapid reductions in official interest rates and many governments announced large fiscal stimulus packages.

The international turmoil arrived in New Zealand at a time when a number of finance companies were already under pressure. Failures increased as funding became more difficult to obtain. The New Zealand economy deteriorated during the financial year of this report with year-on-year Gross Domestic Product growth falling from 0.5% in March 2008 to -1.7% in March 2009¹. In response to market conditions the Reserve Bank OCR was cut six times from 8.25% to 3%² during the Financial Year with a further 0.5% cut since 31 March 2009.

This sets a context for an unprecedented year for the Guardian Mortgage Fund. On 29 July 2008 the Fund was suspended due to liquidity concerns. During the three months following suspension, although the Guardian Mortgage Fund's liquidity improved, market conditions deteriorated and loan defaults increased. During November, in the face of worsening market conditions, we informed investors that we were considering options for the Fund and in December advised investors that we would be holding a meeting of Unit Holders in early 2009 to consider resolutions to wind up the Guardian Mortgage Fund and enable the Trustee to begin to make partial capital repayments. On 4 February 2009 investors voted overwhelmingly to wind up the Guardian Mortgage Fund and begin the process of partial repayments of capital. The first partial capital repayment of 15% was made in March. A subsequent payment of 10% was also made in June 2009.

With loan defaults increasing and the OCR rate falling, the Guardian Mortgage Fund's ability to make income

distributions reduced. In late 2008 we began the process of gradually creating provisions against bad loans but by the beginning of this year needed to increase these provisions significantly. A combination of falling lending rates, increased numbers of loans in arrears and increased provisioning led to a significant reduction in the income distribution rate for the first quarter of 2009. Faced with serious market conditions and the realisation of the first loss for the Guardian Mortgage Fund in March 2009, the income distribution was reduced to zero for the second quarter of 2009 and will remain at that level for the foreseeable future. We recognise how difficult this is but our priority is to preserve investors' capital.

The Financial Statements that follow have been prepared on a 'realisation basis'. This means that we have assessed the value of the loans based on what we expect today, and have raised provisions for any estimated shortfall. This may differ from the actual amount we realise. Initially, we wrote to investors stating that 'we anticipate that the winding-up process may take between two and three years but depended on our ability to dispose of loans with maturity dates beyond that'. For the purposes of these Financial Statements we have assumed the wind-up is completed in four years (2013). Also, for the purpose of these Financial Statements we have not taken into account any income we expect to receive over the period from 1 April 2009 to the date of final winding-up.

We continue to be fully committed to preserving capital and carefully managing the mortgages. At the same time we are working to ensure that the loans are liquidated in a way that allows us to maintain momentum with our partial capital repayments. We have previously said that in the current property and credit environment it is difficult to predict with certainty when we will receive repayments of loans. We are endeavouring, however, to coordinate repayments so we can distribute capital on a quarterly basis, but this will depend upon the environment in which we are operating. In this regard the past two months have been positive, so I am able to say that we have accumulated sufficient funds by way of loan maturities and property disposals to make a further partial capital repayment of 10% in September 2009, and anticipate a further 5% in December 2009.

G R Campbell, July 2009

¹ Source RBNZ <http://www.rbnz.govt.nz/statistics/econind/a5/data.html>

² Source RBNZ <http://www.rbnz.govt.nz/keygraphs/fig2.html>

Questions & Answers

1. Repayments

How much has been repaid to date?

There have been two partial capital repayments since the agreement to wind up the Fund. The first partial repayment in March 2009 was for 15% of the Fund (15% of clients' investment in the Fund as at 29 July 2008, the date of suspension). The second partial capital repayment took place in June 2009 and was for 10% of the Fund (10% of the investment in the Fund as at the date of suspension).

Where does it show how much I have received?

Your April statement included your March repayment, and the letters following both repayments confirmed the amount paid to you.

When is the next repayment?

We plan to make the next repayment in September and have the cash to repay a further 10% of the Fund. We will confirm the amount and date in late August.

What is the schedule for repayments after that?

It is difficult to predict future repayment amounts with certainty. We plan to make repayments quarterly as long as cash is available. The cash available depends on loans maturing and proceeds from any mortgagee sales. We are targeting a further partial capital repayment of 5% of the Fund, possibly more, in mid-December. We will update investors each quarter with our expectations.

Will it still take between two and three years to repay me?

Due to the severity of the local and international recession, the refinancing or sale of property is taking much longer than initially expected. We anticipate that the winding-up process will be completed in 2013. This assumes that loans not due for more than three years (approximately 6% of the Fund) can be disposed of during the winding-up process.

Will I still be receiving income from the Fund?

Income distributions have been suspended, as income is set aside to cover anticipated losses, and capital repayments.

2. Loans, Recoveries, Arrears, Provisions and Losses

Please see the separate fact sheet for information on the number and spread of loans.

What are the total recoveries (loans repaid) since suspension?

\$91,658,735 has been repaid since suspension, comprising 36.7% of the Fund value at suspension. Bad debt write-offs to date comprise principal losses of \$1,537,744 and interest losses of \$1,107,157.

How many loans are in arrears (not paying interest when due)?

16 loans.

What are the provisions for and how much are they?

A provision is money set aside in the event that we do not recover all our loan principal and interest debt. The provisions in the financial statements total \$23.8m which is our current estimate of the amount required on final wind-up to account for potential principal and interest losses. Some of these provisions are specific and some general – the latter a prudent measure to account for any similar situations which may occur during the wind-up. These losses have not been incurred; rather it is our current estimate of what may be incurred between now and final wind-up. The provision created to cover these events is recognised in the financial statements as a 'Doubtful Debts' expense in the Income Statement, which reduces total income. The provisions are disclosed in the Balance Sheet as a reduction in the holding value of the mortgages and interest receivable.

Have there been any losses on mortgages?

Yes. The Fund's first loss occurred in March 2009. The Fund was fully covered by provisions against that loss and we continue to set aside income for this reason. As communicated in April, the money set aside (provisioning) was increased significantly last quarter in the face of continuing deterioration in market conditions. Total losses to date are \$2.6m.

Can I eventually expect to receive 100% of my investment back?

Returning all of your capital continues to be our goal. We note that conditions have worsened significantly since suspension of the Fund and are particularly challenging at present.

As part of the reporting of the March 2009 Financial Statements we are required to forecast the value of disposing of all loans using experience of today's market and create provisions for any estimated shortfall.

Based on today's market experience we have created provisions of \$23.8m and shown this as a reduction in the holding value of the loans and interest receivable in the Fund. It should be recognised that these are not losses but prudent provisions against potential losses based on current market experience. It should also be noted that we have not taken into account income the Fund will continue to receive from loans which would offset any losses we may experience. Based on today's market and our estimate of interest income over the period to wind up, the Fund may incur a small loss, in the region of 5¢ per \$1, although this may change over time depending on whether market conditions improve or deteriorate further.

3. Winding Up the Fund

The Financial Statements are prepared on a 'realisation basis'. What is this, and how is it different to previous years?

The financial statements have been prepared on a 'realisation basis' (see the definition below), as required

due to the wind-up of the Fund. This approach assumes the assets are being realised on an orderly basis and capital is being repaid to Unit Holders as the Fund's liquidity allows. The comparative financial information for the year ended 31 March 2008 was prepared on the 'going concern' basis.

Realisation basis applies the value you would expect to get from an asset if it was sold today on the open market. Usually Funds are reported on a going concern basis, but due to the wind-up decision, the realisation basis must be used to prepare the Fund's financial statements.

The Fund is targeted to be wound up by 31 March 2013. In order to achieve this, the balance of the mortgage loan portfolio at that time will be sold. Specific realisation provisions are based on the expected selling costs and discount of loan values that will be incurred in selling the balance of the mortgage portfolio to a third party.

Is Guardian Trust or its parent company guaranteeing any of the loans?

As previously communicated at the date of suspension, there were six loans, totalling \$14m, guaranteed against any loss of capital or interest by Guardian Trust. This balance is now \$9.5m, and Guardian Trust has paid \$1.4m to the Fund under its indemnity.

When will the Fund be wound up?

Due to the severity of the local and international recession, the refinancing or sale of property is taking much longer than initially expected. We anticipate that the winding-up process will be completed in 2013.

4. Contacts

Who can I speak to about the position of the Fund?

Please contact your adviser, your local branch of Guardian Trust or call us on 0800 801 135.

Income Statement

For the year ended 31 March 2009

	Note	Year ended 31 March 2009 \$'000	Year ended 31 March 2008 \$'000
Revenue			
Interest income		2,097	1,306
Interest income on mortgage loans – Individually impaired		3,768	–
Interest income on mortgage loans – Collectively impaired		2,299	–
Interest income on mortgage loans – Other		16,058	19,137
Total operating revenue/(loss)		24,222	20,443
Expenses			
Audit fee	14	42	8
General expenses	12	675	611
Management fees	12	2,629	2,270
Doubtful debt expenses			
Principal	5	20,090	–
Interest	6	3,706	–
Bad debt expenses			
Principal		1,366	–
Interest		592	–
Realisation expenses	5, 13	900	–
Total operating expenses		30,000	2,889
Result from operating activities			
		(5,778)	17,554
Finance costs		–	–
Net (loss)/profit for the year from ordinary activities before income tax		(5,778)	17,554
Income tax expense/(benefit)		–	–
Net (loss)/profit for the year from ordinary activities after income tax		(5,778)	17,554

The above Income Statement should be read in conjunction with the accompanying Notes. Particularly refer to Note 1 describing the suspension of Unit Holder investments and withdrawals and Note 2(b) describing the preparation of the financial statements on the realisation basis.

Statement of Movement in Unit Holders' Funds

For the year ended 31 March 2009

Net assets attributable to Unit Holders

	Note	Year ended 31 March 2009 \$000	Year ended 31 March 2008 \$000
Net assets attributable to Unit Holders at start of the year		203,122	206,281
Net (loss)/profit for the year from ordinary activities after income tax		(5,778)	17,554
Total recognised income and expense for the year		(5,778)	17,554
Transactions with Unit Holders			
Contributions from Unit Holders	16	121,725	39,514
Withdrawals from Unit Holders	16	(74,879)	(42,673)
Repayments to Unit Holders		(37,495)	–
Distributions to Unit Holders		(17,299)	(17,554)
Total transactions with Unit Holders		(7,948)	(20,713)
Net assets attributable to Unit Holders at end of the year		189,396	203,122
Number of units on issue	10	212,473	203,122

Balance Sheet

As at 31 March 2009

	Note	As at 31 March 2009 \$000	As at 31 March 2008 \$000
Assets			
Cash		30,537	17,973
Receivables	6	922	1,866
Mortgage loans	5	158,214	183,530
Total assets		189,673	203,369
Less liabilities			
Distribution owing to Unit Holders	8	4	3
Payables	7	273	244
Total liabilities		277	247
Net assets		189,396	203,122
Unit Holders' funds		189,396	203,122

The above Balance Sheet should be read in conjunction with the accompanying Notes. Particularly refer to Note 1 describing the suspension of Unit Holder investments and withdrawals and Note 2(b) describing the preparation of the financial statements on the realisation basis.

For and on behalf of the Trustee,
The New Zealand Guardian Trust Company Limited



Director
24 July 2009



Director

Statement of Cash Flows

For the year ended 31 March 2009

	Note	Year ended 31 March 2009 \$000	Year ended 31 March 2008 \$000
Cash flows from operating activities			
Interest income on cash and mortgage loans		20,868	19,748
General operating expenses		(713)	(620)
Management fees		(2,604)	(2,273)
Net cash flows from operating activities	11	17,551	16,855
Cash flows from investing activities			
Mortgage repayments		77,366	75,810
Mortgage advances		(74,406)	(63,756)
Net cash flows from investing activities		2,960	12,054
Cash flows from financing activities			
Contributions from Unit Holders		121,725	39,514
Withdrawals from Unit Holders		(74,879)	(42,673)
Repayments to Unit Holders		(37,495)	–
Distributions to Unit Holders		(17,298)	(17,559)
Net cash flows from financing activities		(7,947)	(20,718)
Net increase in cash and cash equivalents held		12,564	8,191
Cash and cash equivalents			
Carried forward balance		17,973	9,782
Change in amount held		12,564	8,191
Balance at end of year		30,537	17,973

The above Statement of Cash Flows should be read in conjunction with the accompanying Notes. Particularly refer to Note 1 describing the suspension of Unit Holder investments and withdrawals.



Notes to the Financial Statements

31 March 2009

Note	Contents	Page
1	General Information	11
2	Basis of Preparation	11
3	Significant Accounting Policies	12
4	Critical Accounting Estimates, Judgements and Uncertainties	15
5	Risk management	16
6	Receivables	22
7	Payables	22
8	Distribution owing to Unit Holders	23
9	Net assets attributable to Unit Holders	23
10	Number of units	23
11	Reconciliation of Net (Loss)/Profit for the Period from Ordinary Activities After Income Tax to Net Cash Flows From Operating Activities	23
12	Related Parties and Related Party Transactions	24
13	Realisation expenses	25
14	Auditor's remuneration	25
15	Segment reporting	25
16	Contributions from/repayments to Unit Holders	25
17	Events occurring after Reporting Date	26
18	Reclassification of comparative figures	26
19	Audit Report	27
20	Offices	28

1. General Information

The Guardian Mortgage Fund (the 'Fund') was established in New Zealand on 15 May 1986 under the Trustee Companies Act 1967. The Fund invests in a range of first mortgages and bank deposits.

The Fund is governed by a Deed which sets out the rights of investors and the duties of The New Zealand Guardian Trust Company Limited ('Guardian Trust') as Trustee and Manager. During the year the Fund has complied with investment criteria as defined in the Deed.

The following is applicable for the Fund:

- The Trustee, Manager and Registrar is Guardian Trust. Guardian Trust is a subsidiary of Suncorp-Metway Limited.
- The Auditors are KPMG.
- The Solicitors are Mayne Wetherell.
- The Statutory Supervisor is The Public Trust.
- The Fund is not listed on any stock exchange.
- The registered office for the Fund is Level 7, Vero Centre, 48 Shortland Street, Auckland 1010, New Zealand. The postal address is PO Box 1934, Auckland 1140, New Zealand.

On 29 July 2008, the Fund suspended new investments and withdrawals. This decision was made by the Trustee due to liquidity difficulties in the market and the fact that the Fund was operating below its target liquidity level of 5%. The Board of the Trustee determined that, in the interest of fairness amongst Unit Holders, it should suspend investments and withdrawals.

A special general meeting of Unit Holders held on 4 February 2009 resolved to wind up the Fund. It is Management's current plan to endeavour to wind up the Fund by 31 March 2013, but this is dependent upon market conditions.

The impact on the financial statements of suspension and the Unit Holders resolution to wind up the Fund is explained below in Note 2(b).

During the Financial Year the Trust Deed was amended twice. On 3 December 2008 following approval by the statutory supervisor, The Public Trust, the Trust Deed was amended to provide for a distribution of income outside the normal quarterly cycle. This was undertaken to retain equity among Unit Holders prior to the re-structure of an associated Fund.

On 17 February 2009, following approval in a meeting

of Unit Holders on 4 February 2009, the Trust Deed was amended to:

- i) allow partial capital repayments prior to the sale or disposal of all of the assets of the Fund, and
- ii) allow the Trustee to manage the assets (mortgage loans) in such manner as in the opinion of the Trustee is in the best interest of Unit Holders.

An example of this is the ability to extend the maturity date of loans where appropriate.

Statement of Accounting Policies

2. Basis of Preparation

(a) Preparation

These financial statements have been prepared in accordance with the New Zealand equivalent to International Financial Reporting Standards (NZ IFRS), other authoritative pronouncements of the New Zealand Accounting Standards Review Board, the New Zealand equivalent of the Standards Interpretation Committee corresponding to the interpretations approved by the International Accounting Standards Board (IASB), and the Financial Reporting Act 1993 and comply with New Zealand Generally Accepted Accounting Practice. These financial statements also comply with International Financial Reporting Standards. The Fund is a financial institution for the purposes of applying NZ IFRS 7 – Financial Instruments: Disclosures.

These financial statements are prepared under the historical cost convention, as modified by the re-valuation of financial assets and liabilities at realisation values through the Income Statement as explained below.

Critical accounting estimates and judgements made during the preparation of these financial statements are disclosed in Note 4. These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and any future periods if the revision affects both current and future periods.

Amendments to published standards effective in the reporting period:

- The NZ IFRS 7 – Financial Instruments: Disclosures and a complementary amendment to NZ IFRS 1. NZ IFRS 7 introduces new disclosures relating

to financial instruments. It does not have any new impact on the classification and valuation of the Funds.

(b) Realisation basis

The financial statements have been prepared on a realisation basis. This is considered appropriate as the Fund's assets are being realised on an orderly basis and capital is being repaid to Unit Holders as the Fund's liquidity allows. The comparative financial information for the year ended 31 March 2008 has been prepared on the going concern basis.

The impact of adopting the realisation basis (refer to Note 3(l)) has resulted in the write down of assets of \$900,000. The unit price at balance date is \$0.8914. Had the going concern basis been applied, the units would have been priced at \$0.8956. The unit price of \$0.8914 is not the final price that will be repaid to investors as it excludes all future Fund earnings and the actual values to be realised for impaired mortgage loans.

(c) Presentation

The balance sheet has been prepared using the liquidity format of presentation to emphasise the importance of liquidity to the user of the financial statements.

All amounts are presented in thousands of New Zealand dollars, which is the Fund's functional and presentation currency.

(d) New Reporting Standards or Interpretations

The Fund has early adopted amendments to NZ IAS 32 – Financial Instruments: Presentation, and NZ IAS 1 – Presentation of Financial Statements: Puttable Financial Instruments and Obligations Arising on Liquidation, (effective 1 January 2009), the impact of which is to classify Unit Holders' Funds as equity rather than a liability, and distributions to Unit Holders as a movement in Unit Holders' funds.

The following financial reporting standards and interpretations have been issued by the Financial Reporting Standards Board but are not yet effective. These are not applicable to the Fund and therefore, they will have no impact on the Fund's financial results:

- NZ IFRS 8 – Operating Segments (effective from 1 January 2009). NZ IFRS 8 replaces NZ IAS 14 and aligns segment reporting with a management approach under which segment information is presented on the same basis as that used for internal

reporting purposes. This standard has no impact on the reporting for the Fund as the Fund is managed separately and the current basis of financial reporting is the same as that used for internal reporting.

- NZ IAS 1 – Presentation of Financial Statements (effective from 1 January 2009). The revised standard supersedes the 2003 version of NZ IAS 1, as amended in 2005. The application of the revised standard will have no impact on the Fund's financial results and position, as the revision is only concerned with the presentation of the primary statements.

3. Significant 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 years presented except as stated above in Note 2(b).

(a) Basis of recognition of revenue

Revenue comprises interest. Interest income consists of income derived from cash at bank, call deposits and mortgage loans.

Income from cash, money market securities and mortgage loans is accounted for on an accrual basis using the effective interest method. The effective interest method calculates the amortised cost of the financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial asset or liability. The application of the method has the effect of recognising income and expenses on the financial asset or liability evenly in proportion to the amount outstanding over the period to maturity or repayment.

Interest is not accrued on impaired loans.

(b) Basis of apportionment of expenses

Expenses are recognised on an accrual basis as being due up to the end of each accounting period.

Expenses are incurred in relation to investment management and other administrative activities. Investment management costs include the costs involved with advances and repayment of mortgage loans and the ongoing management costs of a loan portfolio.

Statutory supervisor fees, legal fees, valuation fees, costs

of maintaining the Register of Unit Holders and any other operating expenses are paid by the Manager and are recovered from the Fund by the Manager. Guardian Trust has capped the expenses it will recover from the Fund at 0.3%p.a. Guardian Trust reserves the right to adjust the capped amount without notice.

The proportion of cost recoveries recovered by Guardian Trust relating to Income is reported as General Expenses in the Income Statement, and the proportion of management fees relating to Income is reported as Management Fees.

(c) Distributions

Distributions to Unit Holders are recognised as liabilities on the date the distributions are declared. Distributions are treated as a reduction in Unit Holders' Funds and are not recognised in the Income Statement.

Distributions is the amount of profit earned that has been paid or is payable to Unit Holders. Distributions paid are included in the Statement of Cash Flows as cash flows from financing activities.

(d) Repayment of Capital

Since the Fund is being wound up Unit Holders are repaid capital as the Fund's liquidity permits. Such Repayments of Capital are treated as a reduction in Unit Holders' Funds and are not recognised in the Income Statement.

Repayments of Capital are included in the Statement of Cash Flows as cash flows from financing activities.

(e) Taxation

(i) Income tax

Beneficiary income in the six month period ended 30 September 2007 was 'transferred direct' to the beneficiaries, so each beneficiary was assessed directly on the income. The Fund therefore had no income tax expense.

(ii) PIEs

The Fund elected to become a PIE effective on 1 October 2007. This was the earliest date the Taxation (Savings Investment and Miscellaneous Provisions) Act 2006 allowed Funds existing at that date to become PIEs. PIEs are not subject to tax at the Fund level. They must instead calculate and pay tax at the individual investor level at the investor's Portfolio Investor Rate.

The Fund allocates PIE Taxable Income and tax

credits to its Unit Holders on a quarterly basis, with amounts being deducted from Unit Holder distributions. The PIE Tax Liability for each investor is calculated, collected and paid to the Inland Revenue on a quarterly basis for the Fund.

(f) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, other short-term highly liquid investments with original maturities of twelve months or less, deposits at call that are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts. Bank overdrafts are shown within financial liabilities in the balance sheet unless there exists a right of offset.

Payments and receipts relating to the advances and repayment of mortgage loans are classified as cash flows from investing activities.

Cash assets are stated at face value of the amount deposited or withdrawn and are classified as loans and receivables.

(g) Receivables

These amounts represent debtors and accrued income owing to the Fund at year end. Receivables are only recognised when the amount is known and verifiable and there is certainty of the Fund receiving that amount. Receivables are classified as loans and receivables and carried at amortised cost less impairment.

A provision for impairment of receivables is established when there is objective evidence that the Fund will not be able to collect all amounts receivable according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. Expected future receivables are discounted using interest rates on government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash inflows.

(h) Payables

These amounts represent liabilities and accrued expenses owing by the Fund at year end where the amount is known and verifiable. These are classified as financial liabilities at amortised cost.

(i) Provisions

Provisions are recognised when the Fund has a current obligation and the future sacrifice of economic benefit is probable and the amount can be reliably measured.

Provisions are estimates of expected liabilities and are stated at an amount which is determined based on prior experience and the knowledge available at the time of reporting. The amount of the provision may therefore vary from the actual liability when it becomes payable. The reasonableness of the value of any provisions are reviewed periodically by the Fund and adjusted if there is evidence that the amount is under or overstated.

(j) Mortgage loans

Mortgage loans are classified as loans and receivables and are measured initially at fair value plus transaction costs directly attributable to the issue of mortgage loans, and are measured subsequently at amortised cost using the effective interest rate method less impaired losses and realisation costs, if any. Performing mortgage loans are stated at amortised cost which, due to the minimum loan-to-value ratio and the minimum credit criteria required by the Fund for the mortgage loans it holds, is believed by the Manager to be the fair value of these investments. Impaired loans are stated at their realisation values, which are assessed by reference to independent forced sales valuations, adjusted for expected selling and marketing costs. Mortgage loans are derecognised when the rights to receive cash flows have expired, which is normally when the mortgage loan and any accrued interest has been fully repaid.

Impaired assets include restructured loans and other individually impaired assets as follows:

(i) Restructured mortgage loans

Restructured mortgage loans are those where the counterparty had difficulty repaying their loan on the contract repayment date as per the original terms of the contract, and the original terms have been modified to grant the counterparty an extension to the mortgage loan maturity date provided that the Fund's loan-to-value ratio and credit criteria have been satisfied at the date the loan was rolled over for a further period.

(ii) Other individually impaired assets

Other individually impaired assets are those assets determined to be impaired but which are not restructured assets.

Mortgages classed as past due are those on which payments, including interest, have not been made when contractually due.

(k) Impairment of mortgage loans

Provisions for impairment of mortgage loans are raised to

cover actual and expected losses arising from past events and events prevailing at balance date.

(i) Specific provisions

Mortgage loans and accrued interest are subject to an impairment assessment to determine if there is objective evidence that any loan or accrued interest is impaired at each balance date. All known bad debts are written off against the impairment provision in the period in which they are incurred. Where not previously provided for, they are written off directly to the Income Statement.

The criteria that the Fund uses to determine that there is objective evidence of an impairment loss includes:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Initiation of bankruptcy proceedings, and
- Deterioration in the value of collateral.

Specific impairment provisions are recognised for all loans where there is objective evidence that an individual loan is impaired. Specific impairment provisions are measured as the difference between the assets' carrying amount and the estimated future cash flows discounted to their present value at the original effective interest rate. As this discount unwinds during the period between recognition of impairment and recovery of the written down amount, it is recognised in the Income Statement. The process of estimating the amount and timing of future cash flows involves considerable management judgement. These judgements are reviewed at least monthly to reduce any differences between loss estimates and actual loss experience.

(ii) Collective provisions

In response to conditions in the global and local credit and property markets and the associated uncertainty in respect of expectations regarding the repayment of the Fund's mortgage loans and underlying security values, the Fund has considered it appropriate to introduce collective provisioning for mortgage loans with similar credit risk characteristics where individual impairment losses have not been recognised.

Where loans are not assessed as individually impaired, they are classified into groups of loans with similar credit risk characteristics and collectively

assessed for impairment. Collective impairment provisions are based on historical loss experience, adjusted where appropriate for current observable data. The amount necessary to bring the collective impairment provision to its assessed levels, after write-offs, is charged to the Income Statement.

(l) Realisation costs

The Fund is targeted to be wound up by 31 March 2013. In order to achieve this outcome the balance of the mortgage loan portfolio at that time will be sold. Specific realisation provisions are based on the expected selling costs and discount of loan face values that will be incurred in selling the balance of the mortgage portfolio to a third party. The assessed costs necessary to realise the remaining mortgage loan portfolio is charged to the Income Statement.

(m) Unit Holders' Funds

Unit Holders' Funds are classified as equity in these financial statements, as it meets the criteria of a puttable instrument due to the obligation for the Fund to deliver to the Unit Holder a pro rata share of the Fund's net assets on its liquidation. Since the Fund is being wound up, Unit Holders are repaid capital as the Fund's liquidity permits. In addition, the Manager has full discretion as to whether to distribute any net income of the Fund. Income that is not distributed is invested as part of the assets of the Fund or may be used to make distributions in the future. Refer to Notes 1 and 17.

Funds contributed by and attributable to investors are shown in the Balance Sheet as 'Unit Holders' Funds'. These are comprised of net assets attributable and contractually payable to Unit Holders. These are valued by multiplying the number of units on issue to Unit Holders by the published redemption unit price. Published unit prices are calculated by valuing the Fund's underlying assets at realisation value less any liabilities and undistributed income and dividing the net realisation asset value by the number of units on issue.

The treatment of distributions to Unit Holders is described in Note 3(c) above.

4. Critical Accounting Estimates, Judgements and Uncertainties

(a) Critical Accounting Estimates and Judgements

Significant estimates and judgements are made by the

Fund to arrive at certain key asset and liability amounts disclosed in the financial statements. These estimates and judgements are continually being evaluated and are based on historical experience.

The key areas of significant estimates and judgement and the methodologies used to determine key assumptions are set out below.

(i) Impairment losses on mortgage loans

The Fund reviews its mortgage loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the Income Statement, the Fund makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of mortgage loans before the decrease is incurred on an individual mortgage loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. The Executive Management Team of Guardian Trust uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Maturity Profile of Mortgage Loan Portfolio

The contractual maturity date of the mortgage loan portfolio has been used to generate the loan maturity profile presented in Note 5(b)(ii). At the current time a number of borrowers are electing to repay their loans before maturity date. However in the current economic environment it is inevitable that some borrowers will not be able to repay their loans on maturity date. The expected maturity profile presented in these financial statements has not been adjusted to take account of these uncertain factors that will impact on mortgage loan repayments in the future.

(iii) Realisation costs

The realisation costs are Management's estimate of the expected cost of selling the mortgage loan portfolio in 2013. This cost is estimated assuming that actual future cash flows occur as expected. Refer to Note 13.

(b) Uncertainties

(i) Property Market and timing of repayments

At this current time the deterioration of the property market and widespread uncertainty around borrowers' abilities to meet their future obligations may lead to further impairment or delay in the expected repayment of the Fund's mortgage loans. The uncertainty as to the outcome of these matters could lead to further impairment in the carrying value of the Fund's mortgage loans. We are unable to quantify the potential effect of this uncertainty, however the collective provision provided in these financial statements is Management's best estimate of these potential future losses.

(ii) Realisation costs

The sale of the balance of the mortgage loan portfolio in early 2013 will be influenced by the property market at that time and whether or not the balance of the portfolio being sold includes any impaired loans. Early repayment of loans with a contractual maturity date beyond February 2013 will also impact the balance of the loan portfolio that will need to be sold at that time. The uncertainty around these matters could lead to the estimated realisation costs being under or overstated.

The Guardian Trust Risk and Compliance Function facilitates and coordinates the risk management and regulatory compliance function across the Guardian Trust financial services group in New Zealand consistent with Suncorp-Metway Limited's group-wide risk management framework policies, including monitoring and reporting.

(b) Financial risk

The Fund's activities expose it to a variety of financial risks, and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business and the operational risks are an inevitable consequence of being in business. The Fund's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Fund's financial performance.

The Fund's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Fund regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice. All mortgage loans are subject to regular scrutiny to monitor the levels of credit risk and potential impairment.

Risk management is carried out by Risk and Compliance personnel under policies approved by Guardian Trust's Board of Directors. The Board has an overview of the written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important types of risk are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk, interest rate risk and other price risks.

(i) Credit risk

The Fund takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Fund by failing to discharge an obligation. Credit risk is the most important risk for this Fund whose principal activity is lending to third parties.

Financial instruments which potentially subject the Fund to credit risk principally consist of Cash, Debtors and Mortgage Loans. There are no significant concentrations of credit risk except for those

5. Risk management

The Fund's financial condition and operating activities are affected by a number of key financial risks (interest rate risk, credit risk, market risk and liquidity risk) and non-financial risks (compliance risk, fiscal and operational risk). The Fund has implemented a detailed risk management programme to identify and mitigate those risks.

(a) Fund risk management roles and responsibilities

The Executive Management Team of Guardian Trust is responsible for implementing and assessing the effectiveness of risk management strategies and internal control of the Fund in accordance with risk management policies and procedures covering risk identification, rating, assessment, treatment and ongoing management (including reporting).

The Guardian Trust Risk and Compliance Function

Guardian Trust Risk and Compliance personnel support the business unit in developing, implementing and maintaining a suitable and effective risk management framework within the operational activity of the business.

disclosed in this Note.

The Fund requires security over mortgage advances which takes the form of a first registered security over the mortgagor's property. The Fund's investment assets are held in trust by Guardian Trust and are beneficially owned for the Fund. The credit risk management and control are centralised in the Mortgage Administration Team and credit risk status is regularly reported to the Board of Directors. Only New Zealand first mortgages are authorised investments of this Fund. Valuations are obtained for the property at the time the lending is approved and generally not updated over the course of the mortgage loan. Updated valuations are obtained when borrowers fail to discharge their mortgage loan obligations.

The suspension of the Unit Holders' investments

and withdrawals in the Fund, refer to Note 1, and the changed market conditions as explained in Note 4(b)(i) may result in the modification of some of the objectives, policies and processes the Fund uses to manage risk.

The Fund's mortgage loans mainly relate to commercial and residential property development and investment. Guardian Trust manages this asset class concentration risk by ensuring that the Fund's exposure to the property sector is diversified across a range of property classes. The Fund further manages its exposure to the property sector, and the risk of any adverse impact arising from a downturn in the property market in particular, through:

- The close supervision of its loans by experienced staff; and
- Geographical spread of its property lending activities.

Mortgage Loans Asset Quality	31 March 2009 \$000	31 March 2008 \$000
Neither past due nor impaired		
Carrying amount	73,222	140,462
Individually impaired		
Gross amount	71,582	–
Less specific provision for impairment	11,600	–
Carrying amount	59,982	–
Past due but not impaired		
Less than 30 days	1,010	33,353
31 to 60 days	77	9,715
Over 90 days	33,313	–
Carrying amount	34,400	43,068
	167,604	183,530
Collective provision for impairment	8,490	–
Realisation cost provision	900	–
Total carrying amount of mortgage loans	158,214	183,530

Mortgage Loans Asset Quality

Impaired and past due assets are closely monitored and assessed for adequacy of security. Where security is assessed as not being adequate, assets are shown as impaired and the appropriate provisions are made.

The Fund's credit criteria requires a current independent valuation of the mortgage security be completed by an approved independent valuer.

The Trustee of the Fund, Guardian Trust has provided an indemnity to the Fund to compensate the Fund for any interest or capital losses incurred on six specific loans (principal \$13,996,475) included in the portfolio after these were purchased from the Guardian CashPlus Fund on 26 June 2008. Accordingly these mortgage loans are classified as past due but not impaired mortgage loans in the above analysis. As at 31 March 2009, Guardian Trust has recognised in its financial statements, \$8,726,609 representing

\$6,265,000 for principal losses that may arise under the indemnity and \$2,461,609 towards interest paid/ payable to the Fund during the year ended 31 March 2009. The indemnity capital provision recognised by Guardian Trust has not been recognised in either the Balance Sheet or the Income Statement of the Fund, as in the opinion of the Trustee the Fund has six fully performing past due unimpaired loans. The interest income received under this indemnity has been disclosed in the Income Statement as interest income from mortgage loans which is consistent with these

being fully performing past due unimpaired loans.

The Fund's policy is to lend up to 60% of the market value of the property for commercial lending and up to 60% for residential lending. Valuations are obtained at the date of granting the mortgage and are not necessarily updated over the life of the mortgage loan. An estimate of the fair value of collateral and other security enhancements held against the property lending for the Fund is shown below.

	31 March 2009 \$000	31 March 2008 \$000
Individual Impaired Mortgage Loans		
Principal loan balances at 1 April	–	–
Impaired loans arising in the year	82,948	–
Impaired loans repaid during the year	(10,000)	–
Impaired loans written-off during the year	(1,366)	–
Principal loan balances at 31 March	71,582	–
Specific impairment provision balance at 1 April	–	–
Impairment loss for the year		
Charge for the year	11,600	–
Recoveries	0	–
Effect of discounting	0	–
Amounts written-off during the year	0	–
Specific impairment provision balance at 31 March	11,600	–
Collectively impaired mortgage loans		
Principal loan balances at 1 April	183,530	195,584
New loans during the period	74,406	63,756
Loans specifically impaired during the year	(82,948)	0
Loans repaid during the year	(67,366)	(75,810)
Principal loan balances at 31 March	107,622	183,530
Collective impairment provision balance at 1 April	–	–
Impairment loss for the year		
Charge for the year	8,490	–
Recoveries	–	–
Effect of discounting	–	–
Amounts written-off during the year	–	–
Collective impairment provision balance at 31 March	8,490	–
Value of property (at original loan date) against which past due but not impaired loans are secured	97,605	109,395
Value of property (at original loan date) against which impaired loans are secured	104,434	–

Concentration of risks of financial assets with credit risk exposure

The following table is the Fund's credit exposure by mortgage loan sectors.

Mortgage Loan sector	31 March 2009		31 March 2008	
	\$000	%	\$000	%
Commercial	69,170	39%	73,869	40%
Dairy Farms	9,712	5%	13,362	7%
Industrial	20,116	11%	23,389	13%
Sheep and Cattle Farms	9,979	6%	20,480	11%
Residential	16,989	9%	12,234	7%
Other Loans	53,238	30%	40,196	22%
Face value of loans outstanding	179,204	100%	183,530	100%
Less impairment and realisation cost provisions	20,990	12%	–	0%
Total carrying amount of mortgage loans	158,214	88%	183,530	100%
Geographical region	\$000	%	\$000	%
Northern region (Pukekohe – North)	40,344	23%	45,056	24%
Central region (Hamilton – Wellington)	93,359	52%	87,628	48%
Southern region (South Island)	45,501	25%	50,846	28%
Face value of loans outstanding	179,204	100%	183,530	100%
Less impairment and realisation cost provisions	20,990	12%	–	0%
Total carrying amount of mortgage loans	158,214	88%	183,530	100%

Concentration of credit exposure to individual counterparties

The Fund does not have exposure to any individual counterparty that is in excess of 9% (31 March 2008: 9%) of the Fund. In addition, no individual mortgage loan exceeds 5% (31 March 2008: 5%) of the value of the Fund.

(b) Financial risk (cont.)

(ii) Liquidity risk

Liquidity risk is the risk that the Fund is unable to meet its payment obligations associated with its financial liabilities and repayments to Unit Holders under the amended Trust Deed, when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay Unit Holders and fulfil commitments to lend. On 29 July 2008, the Fund suspended new investments and withdrawals. A special general meeting of Unit Holders on 4 February 2009 resolved to wind up the Fund. Capital is being repaid to Unit Holders as liquidity permits.

Liquidity risk is higher for the Fund due to the long-term nature of the investments held by the Fund, namely mortgage loans. To enable the Manager to manage the liquidity risk in the Fund, certain additional powers were granted to the Manager at the special general meeting of Unit Holders held on 4 February 2009.

The Manager manages the liquidity risk of the Fund by preparing expected cash flow forecasts based on the expected maturity analysis for financial assets and liabilities. Expected cash flows on financial assets and liabilities may vary from their contractual maturity. For example, mortgage loans may be repaid early or extended, subject to the normal credit approval process.

Maturity Schedule

Investments in the Fund were subject to a one year term up to 30 September 2007. The term reduced to six months for new unit holdings from 1 October 2007. Prior to suspension of the Fund in July 2008,

the Fund maintained a minimum cash level of 5% in order to meet normal expected redemptions levels. Other than one Unit Holder holding greater than 20% and two Unit Holders holding greater than 10% (31 March 08: one Unit Holder greater than

10%), there are no significant concentrations of Unit Holders. Liquidity levels are monitored regularly. The Manager has suspended redemptions and contributions and mortgage lending. Refer to Notes 1 and 17.

The following table shows contractual maturity periods by asset and liability type.

	Carrying Value \$000	0 – 30 Days \$000	30 – 60 Days \$000	60 – 90 Days \$000	90+ Days \$000	Contractual Cash Flow Total \$000
31 March 2009						
Cash	30,537	30,537	–	–	–	30,537
Debtors	922	922	–	–	–	922
Distribution owing to Unit Holders	(4)	(4)	–	–	–	(4)
Creditors	(273)	(273)	–	–	–	(273)
Mortgage loans	158,214	86,710	1,908	4,981	64,615	158,214
Total net assets	189,396	117,892	1,908	4,981	64,615	189,396
31 March 2008						
Cash	17,973	17,973	–	–	–	17,973
Debtors	1,866	1,866	–	–	–	1,866
Distribution owing to Unit Holders	(3)	(3)	–	–	–	(3)
Creditors	(244)	(244)	–	–	–	(244)
Mortgage loans	183,530	71,153	8,723	13,832	89,822	183,530
Total net assets	203,122	90,745	8,723	13,832	89,822	203,122

The following table shows expected cash flows for maturity periods by asset and liability type. Expected cash flows includes future income on mortgage loans.

	Carrying Value \$000	0 – 30 Days \$000	30 – 60 Days \$000	60 – 90 Days \$000	90+ Days \$000	Expected Cash Flows Total \$000
31 March 2009						
Cash	30,537	30,537	–	–	–	30,537
Debtors	922	922	–	–	–	922
Distribution owing to Unit Holders	(4)	(4)	–	–	–	(4)
Creditors	(273)	(273)	–	–	–	(273)
Mortgage loans	158,214	15,888	4,111	22,485	127,969	170,453
Total net assets	189,396	47,070	4,111	22,485	127,969	201,635
31 March 2008						
Cash	17,973	17,973	–	–	–	17,973
Debtors	1,866	1,866	–	–	–	1,866
Distribution owing to Unit Holders	(3)	(3)	–	–	–	(3)
Creditors	(244)	(244)	–	–	–	(244)
Mortgage loans	183,530	71,153	8,840	14,144	94,681	188,818
Total net assets	203,122	90,745	8,840	14,144	94,681	208,410

Unrecognised loan commitments as at 31 March 2009 were \$650,000 (31 March 2008: \$Nil).

(b) Financial risk (cont.)

(iii) Market risk

Market risk arises from open positions in interest rates and exposure to the property market, which is exposed to general and specific market movements. The Fund only advances first registered securities up to 60% of the registered value of the property and therefore a 5% market movement in the original security valuation for performing mortgage loans would not have any material impact on the value of the Fund.

At this current time the deterioration of the property market and widespread uncertainty around borrowers abilities to meet their future obligations may lead to further impairment or delay in the expected repayment of the Fund's mortgage loans. The uncertainty as to the outcome of these matters could lead to further impairment in the carrying value of the Fund's impaired mortgage loans. We are unable to quantify the potential effect of this uncertainty, however the collective provision provided in these financial statements is Management's best estimate of these potential future losses.

As part of the management of market risk, investment activity is undertaken in accordance with an investment mandate established by the Directors of Guardian Trust. The mandate stipulates the investment allocation mix, the match of investment assets and liabilities and the use of derivatives.

(iv) Capital risk management

The Fund's capital is represented by Equity. The Fund's objectives when managing capital are to

provide returns for Unit Holders through income.

Investment decisions are guided by the mandate.

The Fund undertakes to invest cash generated from interest income net of expenses and mortgage loan principal payments in liquid investments until capital is returned to Unit Holders.

(v) Currency risk

The Fund does not have any currency risk as it only transacts New Zealand denominated financial instruments.

(vi) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Fund is exposed to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes and may reduce losses in the event that unexpected movements arise. The Guardian Trust Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily by the Mortgage Administration Department for the Fund.

The exposure of the Fund to interest rate risk and the effective weighted average interest rate for classes of financial assets and liabilities is set out in the following tables.

31 March 2009	Fixed interest rate maturing in			Floating interest rate \$000	Non-interest bearing \$000	Total \$000	Effective interest rate %
	1 year or less \$000	1 – 2 years \$000	More than 2 years \$000				
Financial assets exposed to interest rate risk							
Mortgage loans	12,389	7,834	–	–	71,582	91,805	2.16%
Total	12,389	7,834	–	–	71,582	91,805	2.16%
Weighted average interest rate %	10.17%	9.28%	–	–	–	2.16%	–
Financial assets exposed to cash flow interest rate risk							
Cash	–	–	–	30,537	–	30,537	4.20%
Mortgage loans	–	–	–	87,399	–	87,399	9.85%
Total	–	–	–	117,936	–	117,936	8.39%
Total financial assets	12,389	7,834	–	117,936	71,582	209,741	–

31 March 2008	Fixed interest rate maturing in			Floating interest rate \$000	Non-interest bearing \$000	Total \$000	Effective interest rate %
	1 year or less \$000	1 – 2 years \$000	More than 2 years \$000				
Financial assets exposed to interest rate risk							
Mortgage loans	65,180	5,862	2,379	–	–	73,421	10.97%
Total	65,180	5,862	2,379	–	–	73,421	10.97%
Weighted average interest rate %	10.17%	9.92%	9.84%	–	–	10.97%	–
Financial assets exposed to cash flow interest rate risk							
Cash	–	–	–	17,973	–	17,973	8.69%
Mortgage loans	–	–	–	110,109	–	110,109	11.53%
Total	–	–	–	128,082	–	128,082	11.13%
Total financial assets	65,180	5,862	2,379	128,082	–	201,503	–

A change in interest rate impacts the fair value of the Fund's fixed rate and non-interest bearing assets. Fair value changes do not impact on the Fund's profit or loss as these assets are carried at amortised cost, reduced by impairment and realisation cost.

The carrying value of the fixed interest and

non-interest bearing mortgage loans approximates the fair value.

The cash flow sensitivity to a 100 basis point movement in interest rates based on the assets held at balance date is summarised in the table below.

	Year ended 31 March 2009 \$000	Year ended 31 March 2008 \$000
Increase/decrease 1% on assets held at balance date		
Impact on profit or loss	1,179	1,281
Total	1,179	1,281
Fund value at 31 March	189,396	203,122
Sensitivity as % of Fund	0.6%	0.6%

(c) Summary of derivative holdings

The Fund does not hold or transact in any derivative financial instruments.

6. Receivables

	Year ended 31 March 2009 \$000	Year ended 31 March 2008 \$000
Accrued Interest Income	4,628	1,866
Provision for doubtful debts re accrued interest income	(3,706)	–
Total receivables	922	1,866

7. Payables

	Year ended 31 March 2009 \$000	Year ended 31 March 2008 \$000
Related party creditor – Guardian Trust	273	244
Total payables	273	244

8. Distribution owing to Unit Holders

	Year ended 31 March 2009 \$000	Year ended 31 March 2008 \$000
Distribution to Unit Holders	4	3

PIE Tax Liability

As a Portfolio Investment Entity (PIE) the Fund is obliged to calculate, collect and pay to the Inland Revenue the PIE Tax liability for each of its Unit Holders on a quarterly basis, at their individual Prescribed Investor Rate (PIR). As at 31 March 2009 there was no PIE Tax liability payable to the Inland Revenue (31 March 2008: \$Nil).

All units are of the same class and share pro rata in the income and assets of the Fund. A unit does not confer any interest in any particular asset or investment of the Fund.

The Trustee Companies Act 1967 requires a distinction to be drawn between income and capital. All income (net of expenses and provisions) of the Fund is distributed: Net surplus/(deficit) after taxation is split between income and capital.

For the Fund, the Income Statement is comprised solely of income items. The Net Surplus after Taxation has been earned on the capital and income accounts as follows.

9. Net assets attributable to Unit Holders

Analysis of net profit from ordinary activities after income tax

	Year ended 31 March 2009 \$000	Year ended 31 March 2008 \$000
Capital	–	–
Income	(5,778)	17,554
Net profit/(loss) for the year from ordinary activities after income tax	(5,778)	17,554

10. Number of units

	Year ended 31 March 2009 \$000	Year ended 31 March 2008 \$000
Number of units at the beginning of the year	203,122	206,281
Contributions from Unit Holders	121,000	36,766
Withdrawals from Unit Holders	(74,879)	(42,673)
Units issued in lieu of distributions	725	2,748
Units cancelled and capital returned to Unit Holders	(37,495)	–
Number of units at the end of the year	212,473	203,122

11. Reconciliation of Net (Loss)/Profit for the Period from Ordinary Activities After Income Tax to Net Cash Flows From Operating Activities

	Year ended 31 March 2009 \$000	Year ended 31 March 2008 \$000
Net (loss)/profit for the year from ordinary activities after income tax	(5,778)	17,554
Decrease/(Increase) in Receivables	23,300	(695)
Increase/(Decrease) in Payables	29	(4)
Net cash flows from operating activities	17,551	16,855

12. Related Parties and Related Party Transactions

	Year ended 31 March 2009 \$000	Year ended 31 March 2008 \$000
Guardian Trust managed Funds and related entities invested in the Fund		
Guardian Balanced Fund	378	465
Guardian CashPlus Mortgage Units Fund	47,464	–
Asteron Life Limited	531	–
Total investments by related parties	48,373	465
Related parties transactions during the year		
Capital Repayments		
Guardian Balanced Fund	67	–
Guardian CashPlus Mortgage Units Fund	8,376	–
Asteron Life Limited	91	–
Distributions		
Guardian Balanced Fund	33	51
Guardian CashPlus Mortgage Units Fund	563	–
Asteron Life Limited	10	–

Guardian Trust provides administration services to the Fund. Such services include trustee services, the sourcing and underwriting of mortgage assets, credit management, customer service, custodial and investment administration services, incidental

accounting and record keeping. The following fees and charges were paid by the Fund to Guardian Trust during the year. All related party transactions are conducted on normal commercial terms and conditions.

	Year ended 31 March 2009 \$000	Year ended 31 March 2008 \$000
Management fees	2,629	2,270
General expenses	675	611
Total payments to related parties	3,304	2,881

See Note 3(b) for an explanation of General expenses.

The Guardian CashPlus Fund invested \$55,839,571.28 into the Guardian Mortgage Fund on 26 June 2008. This investment was subsequently split off to the Guardian CashPlus Mortgage Units Fund on 8 December 2008. Refer to Note 16. The Guardian CashPlus Mortgage Units Fund investment in the

Fund was reduced to \$47,463,635 on 15 March 2009 following the 15% refund of capital on that date.

The Trustee of the Fund, Guardian Trust, has provided an indemnity to the Fund to compensate the Fund for any interest or capital losses incurred on six specific loans. Refer to Note 5.

13. Realisation expenses

	Year ended 31 March 2009 \$000	Year ended 31 March 2008 \$000
The estimated realisation adjustment comprises		
Selling expenses including valuation, legal and other fees	100	–
Discount on face value of residual loan book	800	–
Total realisation expenses	900	–

The discount on face value of the residual mortgage loan book is calculated using 12%. The residual mortgage loan book has been estimated using contractual maturity. This estimate and the uncertainties surrounding it are explained in Note 4(b)(ii).

14. Auditor's remuneration

The Auditor for the year ended 31 March 2009 and 31 March 2008 was KPMG. Audit fees will be met directly by the Fund.

	Year ended 31 March 2009 \$000	Year ended 31 March 2008 \$000
Remuneration for audit of the financial statements of the Fund		
Audit of financial reports and associated costs	42	8
Total remuneration paid to KPMG for audit of the financial statements of the Fund	42	8

15. Segment reporting

A business segment is a group of assets or operations engaged in providing products or services that are subject to risks and rewards that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of a segment operating in other economic environments. The Fund is an investment fund, investing in mortgage loans, with all operations carried out in New Zealand.

The Fund is a separate entity which is managed separately and has its own Unit Holders. Management reporting for the Fund is provided to and monitored by the Trustee, Statutory Supervisor and the Fund Manager. The Fund did not hold a controlling interest in any other Funds.

Accordingly, these financial statements have been prepared on the basis that this Fund is an individual operating segment.

16. Contributions from/ repayments to Unit Holders

Prior to the restructure of the Guardian CashPlus Fund described below, the Guardian CashPlus Fund had invested in cash and directly or indirectly in mortgage loans and, at the time of the restructure, held units in the Guardian Mortgage Fund.

Between 5 November 2008 and 10 December 2008, the Manager suspended withdrawals from and new investments in the Guardian CashPlus Fund to restructure the Fund, so the Fund would qualify for the Crown Retail Deposit Guarantee, initially announced by the Government on 12 October 2008 and subsequently elaborated upon ('Crown Guarantee').

The restructure of the Guardian CashPlus Fund resulted in the Fund's investments being split between two Funds. All cash and short-term investments remained with the Guardian CashPlus Fund and a new Fund, the Guardian CashPlus Mortgage Units Fund, was established to hold the Guardian CashPlus Fund's investment in the

Guardian Mortgage Fund (which was ineligible for the Crown Guarantee). Investors' units in the Guardian CashPlus fund were split between the two Funds in proportion to the assets split between the two Funds. As a result of the restructure, the Guardian CashPlus Fund reduced its holding in the Guardian Mortgage Fund by \$55,839,571.28 and the Guardian CashPlus Mortgage Units Fund increased its holding by the same value. This increased the contributions from and repayments to Unit Holders by \$55,839,571.28. The restructure of the Guardian CashPlus Fund was approved at a special general meeting of Unit Holders held on 8 December 2008.

17. Events occurring after Reporting Date

A further refund of 10% of Unit Holder capital has been approved by the Guardian Trust board and paid to Unit Holders on 15 June 2009.

New mortgage lending has ceased for the foreseeable future, however a number of maturing loans are being rolled over, where they meet our strict lending criteria. The suspension of new investments into the Fund and the lack of liquidity which caused the suspension has limited the funds available to support new lending activity.

There is no other matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect any of the Fund's operations, the results of those operations, or the Fund's state of affairs as at 31 March 2009.

18. Reclassification of comparative figures

There have been no adjustments to the figures reported for previous periods.

To the Unit Holders of Guardian Mortgage Fund

We have audited the financial statements on pages 6 – 26. The financial statements provide information about the past financial performance of the Fund and its financial position as at 31 March 2009. This information is stated in accordance with the accounting policies set out on pages 12 – 22. These financial statements have not been prepared on a going concern basis for the reason set out in Note 2(b) to the financial statements.

Trustee responsibilities

The Trustees are 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 2009, 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 Trustees 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 Trustees 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.

Basis of preparation of the financial statements

In forming our unqualified opinion we have taken account of the fact that the going concern basis of preparing financial statements has not been used. Instead, the financial statements have been prepared on a net realisable value basis. This has been explained in Note 2(b) to the financial statements.

Fundamental uncertainties

In forming our unqualified opinion, we have considered the adequacy of the disclosures made in Note 4 to the financial statements in which the Trustees have explained the uncertainties in respect of property values, borrowers' abilities to meet future obligations to the Fund and the realisable value of the remaining loan portfolio to be sold on or before 31 March 2013. The Trustees are presently uncertain as to the outcome of these matters which could lead to further impairments to the carrying value of the Fund's mortgage loans.

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 – 26:
 - 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 2009 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 27 July 2009 and our unqualified opinion is expressed as at that date.

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