EQUITITRUST CAPITAL

INTERIM FINANCIAL REPORT

31 DECEMBER 2010

Equititrust Income Fund

ACN 061 383 944 ABN 74 061 383 944 AFSL 230471

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EQUITITRUST INCOME FUND
ARSN 089 079 854

DIRECTORS' REPORT

The directors of Equititrust Limited ('the Responsible Entity'), the Responsible Entity of Equititrust Income Fund ('the Scheme'), present their report together with the financial report of the Scheme, for the six months ended 31 December 2010 and the review report thereon.

Responsible entity

The registered office and principal place of business of the Responsible Entity and the Scheme is 1st floor, 67 Thomas Drive, Chevron Island, Queensland.

Equititrust Limited (ABN 74 061 383 944) has been the Responsible Entity since 6 December 1999.

The directors of Equititrust Limited during or since the end of the financial half-year are:

Name, qualifications and independence status	**Age**	**Experience, responsibilities and other directorships**
John Alexander Goddard Non-executive director Appointed 12 October 2010	60	John has held many appointments as director of public corporations, private companies and charitable foundations for over twenty years. He joined the Bendigo Bank Group in 1997 as CEO of its Italian banking subsidiary, Cassa Commerciale Australia Ltd (previously Banca Monte Paschi Australia Ltd). As a senior executive with St.George Bank, John played a pivotal role in growing its asset base from a relatively small financial organisation to the fifth largest bank in Australia. Prior to his role with St.George, John was responsible for managing World Bank and Asian Development Bank funding programs in Asia and the Pacific. John is a fellow of the Financial Services Institute of Australia, a member of the Board of Advice of The Aboriginal and Torres Strait Islander Foundation, Director of Eidos Institute Ltd, trustee of the Ipswich Arts Foundation, and a member of the Australian Institute of Company Directors.
Mark McIvor LLB Executive Director Appointed 1 July 1995	54	Mark McIvor began his commercial career as a partner in a law firm in 1984. Having specialised in property law and mortgage lending for over a decade, Mark established Equititrust in 1993. He has been responsible for guiding its growth and is passionately committed to excellence in investment performance and capital protection.
David John Kennedy LLB. LLM.B.Bus(Acc),ACA Chief Executive Officer Appointed 14 May 2010	41	David Kennedy is a Chartered Accountant and Lawyer with a background in the restructuring of construction and property development companies. David joined the company in 2009, having previously been a partner of Hong Kong's largest restructuring firm where he worked for almost 9 years.

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DIRECTORS' REPORT (continued)

Name, qualifications and independence status (cont)	Age	Experience, responsibilities and other directorships
Craig Granville Treasure Appointed 12 October 2010 Executive Director	48	Craig joined Equititrust as a Board Director in October 2010, and as Director - Landsolve Residential overseeing all Landsolve residential projects. Craig is a qualified surveyor and property developer and is currently Managing Director of the Iliv Group. He is also a member of the Gold Coast chapter of the Urban Development Institute of Australia and has held numerous senior positions in the property sector, including Sunland Group.
Thomas John Haney Non-executive Director Appointed 3 July 2000 Resigned 3 September 2010	53	Thomas John Haney has over 25 years experience in operating and managing the provision of mortgage finance. He is also a solicitor of the Supreme Court of Queensland and New South Wales. John's independent perspective and experience over the years has been extremely valuable in the growth and direction of Equititrust.
David Robert Walter Tucker Non-executive Director Appointed 3 September 2010 LLB (Hons), LLM, B.Bus (Acc)	42	David holds Bachelor and Masters Degrees in Law and a Bachelor of Business (Accountancy). A founding partner of law firm, Tucker Cowen, he has practiced in the areas of company law, partnership dispute resolution, commercial litigation and banking and finance litigation for 18 years.

Review and results of operations

The Scheme continued to invest solely in mortgage loans secured by first mortgages on real property and cash investments during the six months ended 31 December 2010.

The net loss from operations before financing costs for the half-year was $285,683 (2009: profit of $14,844,443) after impairment losses of $13,206,635 (2009: Nil). The impairment loss relates to a deterioration of the property securities and new evidence of values and expected cash flows obtained in the past couple of months.

The residual loss of $12,336,711 for the half year after interest and returns to unitholders was fully absorbed by the subordinated unitholder.

Historically, for most development loans and some commercial loans undertaken by the Scheme, interest has been capitalised, as this is the nature of the lending performed by the Scheme, whereby the interest is included in the loan facility and deducted progressively. Over the past three months, the capitalisation of interest has largely been ceased for loans with significant arrears in order to allow the loan to go into default and thus enable enforcement action to be taken for the control of it.

Accordingly, as at 31 December 2010 there were 15 (2009: 3) loans that were 90 days or more in arrears. Loan principal for these loans totalled $94,402,935 (2009: $4,662,818) being 37.5% (2009: 1.7%) of total loans by value.

During the period, Equititrust Ltd, as the Responsible Entity for the Scheme, has breached several covenants with respect to the finance facility. These relate to the percentage of loans in arrears (which under the facility were capped at 5%) and the eligible asset percentage (which does not allow cash or loans in arrears to be used in such calculation).

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DIRECTORS' REPORT (continued)

The possibility of these breaches arising were discussed with the external financier several months before they occurred. The external financier has agreed to defer the monthly repayments for December 2010 through February 2011 whilst the new repayment proposal is being considered. Although not waiving its rights under the facility, the external financier has agreed to not take further action in relation to them.

During the period:

- The Scheme repaid $9,000,000 of the finance facility of $35,000,000, reducing it to $26,000,000.
- The Scheme continued as a non-liquid fund.
- Hardship payments of $1,564,151 (2009: $2,685,686) were made to investors during the period

Events subsequent to balance date

Subsequent to the half-year end the following events have occurred:

Queensland Floods

The impact of the floods in Queensland in January 2011 has been considered and it has been concluded that there has been no short term impact on the underlying security for the Scheme loan book. No security property was materially damaged as a result of the floods.

The longer term impacts of the floods (and in particular on medium to longer term property values in certain geographical areas) is unknown at this stage and continues to be assessed on an ongoing basis. It is not expected that the floods will have a material effect on the underlying security value of the Scheme loan book.

Priority Class Income

A new Fund was established in December 2010 whose primary purpose was to raise capital to accelerate repayment of the external finance facility indebtedness on the Scheme. In early February 2011, ASIC expressed concern to Equititrust that a potential conflict existed given Equititrust Limited was to act as Responsible Entity of both Funds (i.e. the borrower and the lender). Equititrust identified this potential conflict in the PDS and considered (as did its legal advisers) that the issue had adequately been dealt with by the mechanism it had in place to deal with any conflict. ASIC expressed the view that they had some concerns regarding the potential conflict and as such, in order to be prudent, Equititrust voluntarily withdrew the PDS and returned all monies received.

The Priority Class Fund may be reformed (with a new independent Responsible Entity) if it is considered to be in the best interests of the Scheme's investors to do so. The Fund was established to accelerate repayment to the external financier and hence restore the Scheme to liquid status at a earlier time.

Renegotiation with National Australia Bank.

In early January 2011, Equititrust approached the external financier in order to submit a proposal to vary the repayment schedule agreed in 2010. The purpose of this approach was to seek to correlate repayments to the external financier more closely to loan repayments from borrowers. The external financier has agreed to defer the monthly repayments for December 2010 through February 2011 whilst the new repayment proposal is being considered. The proposal accelerates the repayment of the finance facility if loan repayments from the borrowers occur as management anticipates.

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DIRECTORS' REPORT (continued)

A formal proposal for variation to the repayment plan was submitted to the external financier in early February 2011 who are now considering it. The external financier have indicated that they are broadly supportive of such proposal and it is expected that they will revert to us in the week commencing 21 March 2011 indicating their acceptance or otherwise of the proposal. The Directors of the Responsible Entity consider there are reasonable grounds to expect that the proposal will be accepted (as it results in earlier repayment than under the original proposal). The decision to amend the finance facility on such other terms and conditions, including principal repayments, however rests with the external financier. This may result in an outcome less favourable to the Scheme than the current proposal.

There have been no other significant changes in the nature of the Scheme's operation during the period.

Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 5 and forms part of the directors' report for the six months ended 31 December 2010.

Signed in accordance with a resolution of the directors of Equititrust Limited.

David Kennedy
Director

16 March 2011

Gold Coast

KPMG

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATION ACT 2001

To: the directors of Equititrust Limited, the Responsible Entity for Equititrust Income Fund

I declare that, to the best of my knowledge and belief, in relation to the review for the six months ended 31 December 2010 there has been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

P Steer

P G Steer
Partner

Gold Coast

16 March 2011

EQUITITRUST INCOME FUND
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CONDENSED STATEMENT OF COMPREHENSIVE INCOME

FOR SIX MONTHS ENDED 31 DECEMBER 2010

	Note	31 December 2010 $	31 December 2009 $
Revenue			
Interest income		15,065,706	17,112,314
Net investment income		15,065,706	17,112,314
Expenses			
Impairment losses	12	(13,206,635)	-
Management fee		(2,144,754)	(2,267,871)
Total expenses		(15,351,389)	(2,267,871)
Profit/(loss) from operating activities before finance costs		(285,683)	14,844,443
Finance income/(costs)			
Interest expense		(1,438,908)	(1,636,668)
Distribution expense to ordinary unitholders	5	(8,096,643)	(8,557,208)
Return on subordinated unitholder	5,9	(2,515,477)	(4,650,567)
Absorption of losses by subordinated unitholder	4	12,336,711	-
Net finance income/(costs)		285,683	(14,844,443)
Net profit / Total comprehensive income		-	-

The condensed statement of comprehensive income is to be read in conjunction with the notes to the condensed financial statements

EQUITITRUST INCOME FUND
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CONDENSED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

	Note	31 December 2010 $	30 June 2010 $
Current assets			
Cash and cash equivalents		301,433	19,800,774
Loans and receivables:			
Interest and other receivables		10,776,831	6,497,665
Mortgage loans	6	95,763,091	81,602,272
Total current assets		106,841,355	107,900,711
Non current assets			
Mortgage loans	6	155,707,044	173,736,554
Total non current assets		155,707,044	173,736,554
Total assets		262,548,399	281,637,265
Liabilities			
Financial liabilities measured at amortised cost:			
Accounts payable		1,273,088	1,417,578
Distributions payable	5	3,746,400	1,970,639
Interest bearing liabilities	11	26,000,000	35,000,000
Deferred income		8,121	492,750
Total liabilities (excluding net assets attributable to investors)		31,027,609	38,880,967
Net assets attributable to investors - liability	4	231,520,690	242,756,198
Net assets		100	100
Equity		100	100

The condensed statement of financial position is to be read in conjunction with the notes to the condensed financial statements

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CONDENSED STATEMENT OF CHANGES IN EQUITY

FOR SIX MONTHS ENDED 31 DECEMBER 2010

	Settlement sum		Total equity	
	2010	**2009**	**2010**	**2009**
	$	**$**	**$**	**$**
Opening balance at 1 July	100	100	100	100
Net profit/(loss) for the period	-	-	-	-
Closing balance at 31 December	100	100	100	100

The condensed statement of changes in equity is to be read in conjunction with the notes to the condensed financial statements

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CONDENSED STATEMENT OF CASH FLOWS FOR SIX MONTHS ENDED 31 DECEMBER 2010

	Note	31 December 2010 $	31 December 2009 $
Cash flows from operating activities			
Interest received – mortgage loans		2,756,115	6,239,002
Interest received – cash and cash equivalents		236,932	114,955
Distributions paid to investors		(7,601,250)	(9,009,544)
Interest paid		(1,306,552)	(1,636,668)
Return on subordinated investment		(2,263,782)	(5,247,208)
Management fee		(1,766,617)	(1,875,398)
Net cash flows (used in) / from operating activities		(9,945,154)	(11,414,861)
Cash flows from investing activities			
Mortgage loans advanced	6	(12,458,226)	(7,066,262)
Mortgage loans repaid	6	9,912,837	43,033,610
Net cash (used in) investing activities		(2,545,389)	35,967,348
Cash flow from financing/investor's activities			
Proceeds from issue of redeemable units – investors	4	2,665,354	4,360,820
Payments on withdrawal of redeemable units – investors	4	(1,564,152)	(5,832,344)
Proceeds from borrowings		890,000	17,000,000
Repayment of borrowings		(9,000,000)	(46,000,000)
Net cash from financing/investing activities		(7,008,798)	(30,471,524)
Net increase in cash and cash equivalents		(19,499,341)	(5,919,036)
Cash and cash equivalents at 1 July		19,800,774	12,638,829
Cash and cash equivalents at 31 December		301,433	6,719,793

The condensed statement of cash flows is to be read in conjunction with the notes to the condensed financial statements

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1. Reporting entity

Equititrust Income Fund (the 'Scheme') is a registered managed investment scheme under the Corporations Act 2001. The condensed financial report of the Scheme is for the six months ended 31 December 20010.

2. Statement of compliance

The condensed financial report is a general-purpose financial report, which has been prepared in accordance with AASB 134 *Condensed Financial Reporting* and the Corporations Act 2001.

The condensed financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the annual financial report of the Scheme as at and the for year ended 30 June 2010.

The condensed financial report was authorised for issue by the directors on 15 March 2011.

3. Significant accounting policies

The accounting policies applied by the Scheme in this condensed interim financial report are the same as those applied by the Scheme for the year ended 30 June 2010.

Significant accounting judgements and key estimates

The preparation of interim financial reports requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

In preparing this half year report, the significant judgements made by management in applying the accounting policies of the Group and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report for the year ended 30 June 2010.

During the six months ended 31 December 2010 management reassessed its estimates in respect of going concern and impairment of loans (Note 6).

Going concern

The property and the financial services sectors have continued to experience adverse market conditions during the year which has impacted the capacity of the Scheme's customers to make repayments and/or refinance existing mortgage loan repayments. However the underlying property values are planned to support the repayment of the book value of the loansIn preparing the financial statements on a going concern basis, the Scheme is planned to remain in operation as a non-liquid fund and the Directors highlight the following critical assumptions required to be managed:

- The Scheme's external financier continuing to not take action in relation to the existing breaches of the current finance facility that has occurred from September 2010.
- Compliance with the terms and conditions of the Scheme's proposed revised finance loan facility arrangement or failing this, the external financier agreeing to the current facility's repayment of principal at $3million per month until such time as the loan is fully repaid.
- Maintenance of underlying property values supporting the current mortgage loan amounts.
- Receipt of mortgage loan repayments from borrowers as scheduled.
- Ability of the Scheme to continue income distributions to investors.

The external financier confirmed on 11 February 2011 that it will not be taking any action in respect of the breaches that have occurred from September 2010, however, it reserves it rights under the facility to not waive or give up its rights in relation to any breach of the covenants, and its rights in relation to these breaches continue in full.

A proposal to change the Scheme's finance loan facility arrangement has been made by the responsible entity which is currently being considered by the external financier. Included in the proposal is the repayment of the facility to more closely correspond with the cash inflows of the Scheme, or failing this, the external financier agreeing to the current facility's repayment of principal at $3million per month until such time as the loan is fully repaid. The Directors of the Responsible Entity consider there are reasonable grounds to expect that the proposal will be substantially accepted (as it results in earlier repayment to financier than under the original proposal). The decision to amend the finance facility on such other terms and conditions, including principal repayments, however rests with the external financier. This may result in an outcome less favourable to the Scheme than the current proposal.

The Directors of the responsible entity considers that for the coming 12 months:

- Continued finance loan facilities will be available and repayment of the facilities will be made as agreed until such time as the loan is repaid.
- The underlying property values support the recovery of the current mortgage loan amounts
- Mortgage loan repayment from borrowers are achieved as scheduled (for non-impaired loans)
- The fund will continue to distribute income to investors.

The Scheme's mortgage loans are however secured by registered first mortgages over real property, that require maximum loan to valuation ratios of 80% at commencement of a loan. Management, based on the assumptions in the future cash flows, is of the opinion that an appropriate level of mortgage loan repayments will be received over the relevant period. In any event, even in the situation where repayments are delayed, the directors are of the opinion that upon default or term, any expected proceeds from the sale of the mortgaged properties will be sufficient to repay the existing finance loan facility and provide some repayments to investors that have requested redemption of funds.

The adverse conditions in the property and the financial services sectors also continue to have a negative impact on the Scheme's fundraising ability. This has resulted in the Responsible Entity deciding to continue to operate as a non-liquid fund, as permitted by the Scheme's constitution.

The Scheme is permitted to make periodic withdrawal offers to all investors in the pending withdrawal pool. Further pro-rata offers are planned, subject to available liquidity and the approval of the Scheme's current lender. At 31 December 2010 the Responsible Entity held valid redemption requests totaling $48,104,273 (30 June 2010: $54,198,878) which will be required to be repaid or withdrawn and converted to term investments at the investors election, before the Scheme can be reopened as liquid. The Directors, based on the assumptions in the future cash flows in relation to deferred redemptions requests, are of the opinion that the Scheme will continue to operate on a non-liquid basis over the relevant period.

The Directors of the Responsible Entity, based on the assumptions above and incorporated into the future cash flows, are of the opinion that the Scheme will continue as a going concern. If the Responsible Entity is unsuccessful in managing these conditions, which include the acceptance by the lender of the proposed revised finance loan facility, the Scheme may be unable to realise its assets and discharge its liabilities in the normal course of business.

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4. Net assets attributable to investors - liability

	Opening Balance	*Applications*	*Absorption of losses*	*Redemptions*	*Closing Balance*
	$	*$*	*$*	*$*	*$*
31 December 2010					
Ordinary unitholders	202,723,425	2,665,354	-	(1,564,152)	203,824,627
Subordinated unitholder	40,032,773	-	(12,336,711)	-	27,696,063
Total	242,756,198	2,665,354	(12,336,711)	(1,564,152)	231,520,690
30 June 2010					
Ordinary unitholders	206,484,503	6,914,051	-	(10,675,129)	202,723,425
Subordinated unitholder	40,032,773	-	-	-	40,032,773
Total	246,517,2760	6,914,051	-	(10,675,129)	242,756,198

5. Distributions paid and payable

	31 December 2010 $	31 December 2009 $
The distributions for the half- year comprise:		
Ordinary unitholders		
Total distributions paid	5,630,612	6,132,490
Total distributions payable	2,466,031	2,424,718
	8,096,643	8,557,208
Subordinated unitholder		
Total distributions paid	1,235,108	2,276,356
Total distributions payable	1,280,369	2,289,211
	2,515,477	4,565,567
	10,612,120	13,207,775

6. Mortgage loans

	31 December 2010 $	30 June 2010 $
Opening balance	255,338,826	301,837,210
Advances	19,250,781	44,427,143
Impairments	(13,206,635)	(1,855,596)
Repayments	(9,912,837)	(89,069,931)
Closing balance	251,470,135	255,338,826

The majority of the Scheme's financial assets are secured by registered first mortgages over real property. As a result, the Scheme is subject to property value risk with fluctuations in the prevailing levels of market property values.

The Scheme's property value risk is managed on a regular basis by management in accordance with policies and procedures in place, including but not limited to:

- The adoption of maximum loan to valuation ratios of 80%; and
- Regular valuations of security properties by registered panel-valuers.

The property and the financial services sectors continue to experience significant adverse market conditions during and subsequent to the half-year end resulting in a decision to further impair some loans in the portfolio, as at 31 December 2010. This is to reflect the responsible entity's expectations (or those of independent valuations) as to the current market value of the underlying security for these loans.. Accordingly, an impairment loss has been recognised against the Scheme's loan book of $13.2 million. This impairment has been absorbed entirely by Equititrust Limited's return on subordinated investment and $40 million Capital Warranty investment in the Scheme, thereby reducing the remaining available Capital Warranty to $27.6 million.

7. Financial risk management

Financial risk management objectives and policies are consistent with that disclosed in the annual financial report as at and for the year ended 30 June 2010.

8. Contingencies

There are contingent liabilities of $580,665 (30 June 2010: $580,665) in respect of guarantees issued by a bank to borrowers on behalf of the Scheme. These guarantees have been included in the borrowers approved loan facilities.

9. Related parties

Related party transactions

From time to time directors of the Responsible Entity, or their director-related entities, may invest or withdraw from the Scheme. These investments or withdrawals are on the same terms and conditions as those entered into by other Scheme investors.

Related party investments held by the Scheme

The Scheme has no investments in Equititrust Ltd or its associates (2009: nil).

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Units in the Scheme held by other related parties

Details of investments in the Scheme by the Responsible Entity or its related parties are set out below:

31 December 2010	**Unit Holding paid/payable**	**Interest held**	**Applications**	**Withdrawals**	**Distributions**
Equititrust Ltd	27,696,062	11.96%	-	-	$2,515,477
Shakespeare Haney Premium Income Fund **	4,597,756	1.99%	-	-	$168,038
MM Holdings Pty Ltd	1,222,176	0.53%	$20,000	-	$64,006

30 June 2010	**Unit Holding paid/payable**	**Interest held**	**Applications**	**Withdrawals**	**Distributions**
Equititrust Ltd	40,032,773	16.49%	-	-	$10,531,734
Shakespeare Haney Premium Income Fund	5,232,388	1.89%	-	($634,633)	$360,467
MM Holdings Pty Ltd	1,202,176	0.50%	$330,324	-	$871,852

** Related party for the period to 3 September 2010

9. Related parties (contd)

Key management personnel loan disclosures

The Scheme has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the condensed reporting period to 31 December 2010.

Other transactions within the Scheme

As at 31 December 2010 the Scheme owed a management fee of $378,138 (December 2009: $392,473) to the responsible entity. As at 31 December 2010 the Scheme also owed $1,280,369 (31 December 2009: $2,289,211) to the responsible entity being the balance owed on its yield from its subordinated investment in the Scheme.

Apart from those details disclosed in this note, no director has entered into a material contract with the Scheme since the end of the previous year and there were no material contracts involving directors' interests subsisting at 31 December 2010.

10. Liquidity

Liquidity risk is the risk that the Scheme will not be able to meet its financial obligations as they fall due. The Scheme's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Scheme's reputation.

During the period ended 31 December 2010 the Scheme continued to suspend redemptions. However hardship payments of $1,564,151 (31 December 2009: $2,685,686) were made to investors who were experiencing hardship and were able to prove hardship in accordance with the ASIC relief instrument. No pro-rata distributions have been made to investors with unpaid redemption requests during this period (December 2009: $3,000,000).

The Scheme would continue to manage liquidity on the basis that it is able to meet Scheme costs, make further advances to borrowers to enhance and protect asset value, meet bank liability obligations and pay investor distributions. Provided these obligations are met and there is sufficient available liquidity then further payments in respect of investor hardship and unpaid redemption requests will be considered and paid to the extent that the Scheme is able to continue in the best interests of all stakeholders.

At 10 March 2011, unpaid redemption requests of the Scheme were $48,104,273 (31 March 2010: $52,285,743.

11. Interest bearing liabilities

	31 December 2010 $	30 June 2010 $
Borrowings secured - first registered mortgage debenture charge over the assets of the Scheme	26,000,000	35,000,000
	26,000,000	35,000,000

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11. Interest bearing liabilities (contd)

The existing repayment agreement with the external financier is for a principal reduction of $3 million per month until fully repaid. The finance facility of $26 million expires on 31 October, 2011. During the period, the Scheme has breached several covenants with respect to the finance facility. These relate to the percentage of loans in arrears (which under the facility were capped at 5%) and the eligible asset percentage (which does not allow cash or loans in arrears to be used in such calculation).
. Although not waiving its rights under the facility, the external financier has agreed to not take further action in relation to them.

An alternative proposal has been submitted which more closely aligns repayments with cash inflows. The Directors of the Responsible Entity consider there are reasonable grounds to expect that the proposal will be substantially accepted (as it results in earlier repayment to financier than under the original proposal). The decision to amend the finance facility on such other terms and conditions, including principal repayments, however rests with the external financier. This may result in an outcome less favourable to the Scheme than the current proposal.

12. Impairment of mortgage loans

At 31 December 2010, in response to the current economic and financial conditions, the Responsible Entity reviewed the carrying value of mortgage loans of the Scheme in order to identify whether any loans may be impaired.

In assessing whether mortgage loans may be impaired, the Responsible Entity considerations included but were not limited to:

- Valuations of security properties completed by registered valuers;
- Actual sale prices realised on completed projects;
- Estimated time to realise mortgage loans; and
- Specialist staff, with significant skills in property development and valuations, have assessed all large exposures and loans considered at risk and have produced feasibility studies which have been reviewed by management.

As a result of this review, the Responsible Entity recorded impairment losses in respect of mortgage loans of $13,206,635 (2009: nil). This impairment loss is in respect of the following individual loans and properties held as security:

- Although an independent valuation in February 2009 valued property securing a $43.6m loan at $55m, and the full amount may be received, the loan has been impaired by $2.1m based on realization strategies considered to date, and a current sales campaign.
- Although an independent valuation in September 2009 valued property securing a $56.4m loan at $81.5m, the directors believe that the realizable value is significantly lower and the loan has been impaired by $7.6m. Legal advice is being sought with regard to action against the Valuer.
- Although an independent valuation in July 2008 valued property securing a $7m loan at $10.2m, the loan has been impaired by $1m as it is considered that the value has diminished since the date of valuation.
- It is anticipated that the sale of the property will result in a shortfall of up to $500,000. As a result the loan of $3.4m has been impaired by this amount.
- The $9.9m loan is secured by property valued at $6.8m in November 2010. It is considered that the value of the property is significantly higher than the valuation. Negotiations are currently under way for a sale to a joint venture at approximately $8m. Accordingly, the loan has been impaired by $2m.

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11. Impairment of mortgage loans (cont)

Impairment losses represent estimates of losses that may be incurred based on a number of assumptions including amounts that will be received upon repayment or sale of the security property and the period until funds are returned. In the current economic conditions there is uncertainty as to the amount that could be realised on the sale of security properties, and the time it may take to achieve a sale. Accordingly, actual impairment losses incurred may differ significantly from these estimates.

The Scheme has exposure to certain mortgage loans that individually exceed 5% of the total value of mortgage loans. Details of these loans are set out in the following tables:

December 2010:

Total Principal $	Security Valuation Amount $	LVR * %	Type of valuation	Valuation Date
15,414,734	12,000,000	128	Independent valuation	13 August 2010
48,153,734	81,500,000	60	Independent valuation	2 September 2009
27,562,054	52,925,000	52	Independent valuation	19 September 2008
41,769,811	50,832,145	82	Independent valuation	16 February 2009
133,900,379				

* *LVR's are based on the total approved amount*

June 2010:

	Total Principal $	Estimated Value of Security $	*Estimated LVR %	Method of Assessing Value at 30 June 2010	Valuation Date Range
i)	64,402,820	96,605,000	67	Independent valuations	Sep 09
i)	47,176,996	58,646,495	80	Independent valuations	Nov 07 to May 08
i)	31,079,449	75,515,000	41	Independent valuations	Sep 08
ii)	21,946,863	28,595,000	77	Independent valuations	Aug 07 to Jan 08
i)	13,740,532	18,860,000	73	Independent valuations	Dec 09
	178,346,660				

* *LVR's are based on the total approved amount*

i) Valuations are for cross collateralised security properties. Valuations were obtained for mortgage purposes

ii) Valuations are for cross collateralised security properties. Valuations for $21,965,000 were specifically obtained for balance sheet purposes. Valuations for $6,750,000 were obtained from valuers for mortgage purposes.

All other property valuations that were obtained from valuers were for mortgage purposes. A number of security properties are subject to town planning applications.

13. Contingent liabilities

From time to time the Scheme is party to litigations in the normal course of its business as a money lender. The Directors are not aware of any material liability likely to arise to the Scheme as a result of litigation matters at half year end and subsequent to 31 December 2010.

14. Events subsequent to reporting date

Subsequent to the half-year end the following events have occurred:

Queensland Floods

The impact of the floods in Queensland in January 2011 has been considered and it has been concluded that there has been no short term impact on the underlying security for the Scheme loan book. No security property was materially damaged as a result of the floods.

The longer term impacts of the floods (and in particular on medium to longer term property values in certain geographical areas) is unknown at this stage and continues to be assessed on an ongoing basis. It is not expected that the floods will have a material effect on the underlying security value of the Scheme loan book.

Priority Class Income

A new Fund was established in December 2010 whose primary purpose was to raise capital to accelerate repayment of the external finance facility indebtedness on the Scheme. In early February 2011, ASIC expressed concern to Equititrust that a potential conflict existed given Equititrust Limited was to act as Responsible Entity of both Funds (i.e. the borrower and the lender). Equititrust identified this potential conflict in the PDS and considered (as did its legal advisers) that the issue had adequately been dealt with by the mechanism it had in place to deal with any conflict. ASIC expressed the view that they had some concerns regarding the potential conflict and as such, in order to be prudent, Equititrust voluntarily withdrew the PDS and returned all monies received.

The Priority Class Fund may be reformed (with a new independent Responsible Entity) if it is considered to be in the best interests of the Scheme's investors to do so. The Fund was established to accelerate repayment to the external financier and hence restore the Scheme to liquid status at a earlier time.

Renegotiation with National Australia Bank.

In early January 2011, Equititrust approached the external financier in order to submit a proposal to vary the repayment schedule agreed in 2010. The purpose of this approach was to seek to correlate repayments to the external financier more closely to loan repayments from borrowers in the Scheme loan book. The proposal accelerates the repayment of the finance facility if loan repayments from the borrowers occur as management anticipates.

14. Events subsequent to reporting date (cont)

A formal proposal for variation to the repayment plan was submitted to the external financier in early February 2011 who are now considering it. The external financier have indicated that they are broadly supportive of such proposal and it is expected that they will revert to us in the week commencing 21 March 2011 indicating their acceptance or otherwise of the proposal. The Directors of the Responsible Entity consider there are reasonable grounds to expect that the proposal will be substantially accepted (as it results in earlier repayment than under the original proposal). The decision to amend the finance facility on such other terms and conditions, including principal repayments, however rests with the external financier. This may result in an outcome less favourable to the Scheme than the current proposal.

EQUITITRUST INCOME FUND
ARSN 089 079 854

DIRECTORS' DECLARATION

In the opinion of the directors of Equititrust Limited, Responsible Entity of Equititrust Income Fund ("the Scheme"):

1. the financial statements and notes set out on pages 6 to 19, are in accordance with the Corporations Act 2001, including:

    (a) giving a true and fair view of the financial position of the Scheme as at 31 December 2010 and of its performance, as presented by the results of its operations and its cash flows, for the six months ended on that date; and

    (b) complying with Australian Accounting Standards AASB 134 *Condensed Financial Reporting* and the Corporations Regulations 2001; and

2. there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors of Equititrust Limited.

David Kennedy
Director

Gold Coast

16 March 2011

KPMG

Independent auditor's review report to the members of Equititrust Income Fund

Report on the financial report

We have reviewed the accompanying condensed financial report of Equititrust Income Fund ("the Scheme"), which comprises the condensed statement of financial position as at 31 December 2010, condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flow for six months ended on that date, and other explanatory notes 1 to 14 and the directors' declaration set out on pages 6 to 20.

Directors' responsibility for the condensed financial report

The directors of Equititrust Limited (the Responsible Entity) are responsible for the preparation and fair presentation of the condensed financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the condensed financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express a conclusion on the condensed financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Condensed and Other Financial Reports Performed by the Independent Auditor of the Entity,* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the condensed financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Scheme's financial position as at 31 December 2010 and its performance for the six months ended on that date; and complying with Australian Accounting Standard AASB 134 *Condensed Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Equititrust Income Fund, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a condensed financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Independent auditor's review report to the members of Equititrust Income Fund

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the condensed financial report of Equititrust Income Fund is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the scheme's financial position as at 31 December 2010 and of its performance for the six months ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Condensed Financial Reporting* and the *Corporations Regulations 2001*.

Material uncertainty regarding continuation as a going concern

Without qualification of the above conclusion, we draw attention to note 3 to the financial report which indicates that the ability of the Scheme to continue as a going concern is dependent upon the Scheme successfully agreeing with its external financier revised terms of the facility, realising sufficient cash funds from the repayment of existing mortgage loans of the Scheme to meet loan repayment commitments, pay valid redemption requests within the period set out in the Scheme's constitution and provide funding for the ongoing business operation. These conditions, along with matters as set forth in note 3 should they arise, indicate the existence of a material uncertainty which may cast significant doubt about the Scheme's ability to continue as a going concern.

KPMG

KPMG

P Steer

P G Steer
Partner

Gold Coast

16 March 2011

EQUITITRUST CAPITAL

EQUITITRUST LIMITED
ACN 061 383 944 ABN 74 061 383 944 AFSL 230 471

Office
67 Thomas Drive Chevron Island QLD 4217
Box 8111 GCMC QLD 9726

Ph 07 5527 5527
Freecall 1800 635 527
Fax 07 5527 5900

Email info@equititrust.com.au
Web www.equititrust.com.au