*Building Relationship*

EQUITITRUST

Income & Finance

# Responsible Entity's Report

Equititrust

Income Fund

ARSN 089 079 854

# EQUITITRUST INCOME FUND
**ARSN 089 079 854**

Annual Financial Report

30 June 2009

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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 year ended 30 June 2009 and the auditor's 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 year are:

| **Name, qualifications and independence status** | **Age** | **Experience, responsibilities and other directorships** |
|---|---|---|
| Mark McIvor LLB<br>Executive Director<br>Appointed 1 July 1995 | 53 | Mark McIvor is the founder of Equititrust Limited. He has been a lawyer for over 26 years, specialising in mortgage investment and property lending. |
| Thomas John Haney<br>Non-executive director<br>Appointed 3 July 2000 | 52 | Thomas John Haney has over 28 years experience in law and mortgage finance.<br>He is a solicitor of the Supreme Court of Queensland and New South Wales. |
| Wayne McIvor<br>Mortgage Manager<br>Appointed 10 August 2000 | 55 | Wayne McIvor has a property and management background and has been pivotal in Equititrust's lending team for over 14 years. |

### Principal activities

The Scheme is a registered managed investment Scheme domiciled in Australia.

The investment activities of the Scheme continue to be in accordance with the investment policy of the Scheme as outlined in the current product disclosure statement, and investments in each class of asset were maintained within the stated asset allocation ranges. The key asset categories are fixed interest equities and registered managed investment schemes.

The Scheme did not have any employees during the year.

There have been no significant changes in the nature of the Scheme's activities during the year.

### Review and results of operations

At 30 June 2009 the Scheme had total assets of $318,030,942 (2008: $408,611,469). The Scheme continued to invest solely in mortgage loans secured by first mortgages on real property and cash investments during the year ended 30 June 2009.

The Scheme had impairment losses for the year ended 30 June 2009 of $1,122,782 (2008: nil) relating to impaired loans at balance date.

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**DIRECTORS' REPORT**

**Review and results of operations (cont)**

A suspension on lending to new borrowers was invoked on 30 October 2008. However, lending to existing borrowers to either complete development projects or enhance the value of underlying security assets continued through the remainder of the year.

**Distributions to investors**

The rate of distribution paid to each investor is set at the time of entering into the Scheme. The average distribution rate for the year was 9.08% (2008: 8.46%).

Distributions paid or payable by the Scheme since the end of the previous financial year were $19,388,090 (2008: $24,543,357 ).

**Investors Funds**

The Scheme received $53,493,674 of investor funds during the financial year (2008: $200,029,417), while $84,486,856 was withdrawn or transferred to a related scheme (2008: $195,825,363), resulting in a balance of investors' funds of $246,517,276 as at 30 June 2009 (2008: $277,510,458).

On 28 January 2009 the Scheme's Constitution was amended enabling subordinated units to be issued. This enabled the Responsible Entity to convert its ordinary units of $42,136,143 to subordinated units on 1 July 2008. The rights attached these units were subordinated to those of other investors.

The Scheme experienced an increase in investor redemption requests during the first four months of the year, being $76,132,933 compared to $46,977,161 for the same period in 2008. There were also delays in the repayment of certain mortgage loans from borrowers. This was largely as a result of the ongoing global credit and liquidity crisis and the introduction of a guarantee of authorised deposit-taking institutions (ADIs) incorporated in Australian which does not apply to the Scheme.

As a consequence of these events the Responsible Entity advised investors in the Scheme on 30 October 2008 that it would commence deferring redemptions for 90 days to enable liquidity of the Scheme to be managed. On 28 January 2009, electing not to invoke a further 90 and 180 day delay as permitted by the Scheme's constitution, the Responsible Entity declared the Scheme to operate as non-liquid. This allowed the Scheme to make periodic withdrawal offers to all investors in the pending withdrawal pool. To date one pro-rata payment of $5,000,000 was made on 20 March 2009. Further pro-rata offers are planned subject to available liquidity and bank approval.

Since the Scheme is non-liquid, withdrawal requests would only be payable when sufficient cash funds become available. However, upon adequate liquidity being available to the Scheme after the repayment of the $30,000,000 bank loan facility and repayment of outstanding redemption requests, the Scheme would continue to operate as it did prior to the global credit crisis.

The Scheme had total assets valued at $318,030,942 as at 30 June 2009 (2008: $408,611,469). The basis for accounting for valuation of the Scheme's assets is disclosed in Note 1 to the financial statements.

**State of affairs**

The property and the financial services sectors continue to experience significant adverse market conditions during and subsequent to year end. The Fund has established risk management procedures to manage the impact of these adverse market conditions on the Fund. The Fund's major areas of risk arising from the adverse market conditions relate to liquidity of the fund, credit risk on borrower's defaulting and a decrease in property values.

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**DIRECTORS' REPORT**

### Likely developments

The Scheme will continue to pursue its policy of maintaining returns through selective investment decision-making and will also continue to pursue credit lines with banks to assist liquidity. The Scheme will continue to advance funds to existing borrowers to enhance underlying security property value. To improve liquidity the Scheme will continue, where required, to assist borrowers with the sales and refinance process.

The Responsible Entity will continue to monitor and manage financial risks arising from the current adverse conditions in the property and financial services sectors.

### Environmental Regulation

The Scheme's operations are not subject to any significant regulation under Commonwealth, State or Territory legislation.

### Events subsequent to balance date

Subsequent to year-end, Equititrust Income Fund has received an email dated 29 September 2009 from the financier approving the extension of an existing bank facility of $30,000,000 to 28 February 2010 on the basis of four instalment repayments of $15,000,000 on 30 September 2009, $5,000,000 by 31 October 2009, $5,000,000 by 31 December 2009 and the remaining $5,000,000 by 28 February 2010 which will include alterations in facility terms and conditions, covenants and undertakings. As at 30 September 2009 the first instalment of $15,000,000 had been met. The responsible entity has advised investors that income distributions will continue to be paid as and when they fall due and hardship redemptions will be paid as allowed for by ASIC's new relief instrument and the Bank's approved limit. Redemption offers are contingent upon repayment of the remaining facility and appropriate liquidity being available.

### Interests of the Responsible Entity

The Responsible Entity entered into an investment agreement dated 18 February 2009 to maintain a minimum investment in Equititrust Income Fund of $40,000,000. The Responsible Entity has the discretion to reduce the minimum investment to $20,000,000 provided it has the approval of the bank credit line providers. The investment is subordinated to the rights of other investors. The subordination affords further protection to investors and assists the Scheme's liquidity.

The constitution of the Scheme was amended on 29 January 2009 to reflect the above subordination and also alters the manner of income distributions. Previously the Responsible Entity's investment in the Scheme was at normal investor rates, terms and conditions and the Responsible Entity received separately an interest warranty fee after the payment of investor warranted return and any associated costs or outlays of the Scheme.

Under the revised constitution income distributions during the year from the Scheme were conducted in the following order of priority:

- expenses of the Scheme;
- benchmark distribution return to Members;
- payment of management fees of the Responsible Entity;

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**DIRECTORS' REPORT**

**Interests of the Responsible Entity (cont)**

- distribution of remaining surplus to be paid to the Responsible Entity as a return on Responsible Entity's subordinated units.

The changes in the constitution were made retrospectively with effect from 1 July 2008 and the Responsible Entity's interest has been presented in the financial statements on this basis.

The following fees and returns were paid to Equititrust Limited out of Scheme property during the financial year:

| | 2009<br>$ | 2008<br>$ |
|---|---|---|
| Interest warranty fees | - | 21,072,761 |
| Management fees | 5,494,519 | - |
| Return on Responsible Entity's subordinated investment | 9,913,410 | - |
| Total fees and returns | 15,407,929 | 21,072,761 |

The fees and returns paid in 2009 are represented by the surplus of receipts from mortgage lending after payment of the Scheme investors' warranted or benchmark returns and expenses of the Scheme. Management fees were calculated at 1.5% of funds under management.

Associates of the Responsible Entity or its directors had 40,904,625 subordinated investment units in the Scheme at 30 June 2009. At 30 June 2008 associates of the Responsible Entity or its directors had 42,136,143 investment units in the Scheme on normal terms and conditions.

**Indemnities and insurance premiums for Officers**

***Indemnification***
Under the Scheme's constitution the Responsible Entity, including its officers and employees, is indemnified out of the Scheme's assets for any loss, damage, expense or other liability incurred by it in properly performing or exercising any of its powers, duties or rights in relation to the Scheme.

***Insurance premiums***
During the financial year the Responsible Entity has paid premiums in respect of the Responsible Entity's directors' or executive officers' liability and legal expenses' insurance contracts for the year ended 30 June 2009. The entity has paid in respect of the Scheme, premiums in respect of such insurance contracts for the year ending 30 June 2009. Such insurance contracts insure against certain liability (subject to specific exclusions) for persons who are or have been the directors or executive officers of the Responsible Entity.

**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 year ended 30 June 2009.

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

Mark McIvor
Director

30 September 2009
Gold Coast

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 audit for the financial year ended 30 June 2009 there has been:

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

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

KPMG

P G Steer
*Partner*

Gold Coast

30 September 2009

**EQUITITRUST INCOME FUND**
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## INCOME STATEMENT

## FOR THE YEAR ENDED 30 JUNE 2009

| | Note | 2009 $ | 2008 $ |
|---|---|---|---|
| **Revenue** | | | |
| Interest income | 5 | 43,664,257 | 55,623,726 |
| **Total revenue** | | 43,664,257 | 55,623,726 |
| **Expenses** | | | |
| Impairment losses – mortgage loans | 11 | (1,122,782) | - |
| Management fee | 12 | (5,494,519) | - |
| Interest warranty fee | 12 | - | (21,072,761) |
| **Total expenses** | | (6,617,301) | (21,072,761) |
| **Profits from operating activities before finance costs** | | 37,046,956 | 34,550,965 |
| **Finance costs** | | | |
| Interest expense | | (7,745,456) | (10,007,608) |
| Distribution expense to investors | 8 | (19,388,090) | (24,543,357) |
| Return on Responsible Entity's subordinated investment | 12 | (9,913,410) | - |
| **Total finance costs** | | (37,046,956) | (34,550,965) |
| **Net profit** | | - | - |

*The income statement is to be read in conjunction with the notes to the financial statements*

**EQUITITRUST INCOME FUND**
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**BALANCE SHEET**
**AS AT 30 JUNE 2009**

| | Note | 2009<br>$ | 2008<br>$ |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 7a | 12,638,829 | 9,786,260 |
| Loans and receivables: | | | |
| Interest and other receivables | | 3,554,903 | 3,867,784 |
| Mortgage loans | 10 | 169,135,717 | 287,163,419 |
| **Total current assets** | | 185,329,449 | 300,817,463 |
| **Non current assets** | | | |
| Mortgage loans | 10 | 132,701,493 | 107,794,006 |
| **Total non current assets** | | 132,701,493 | 107,794,006 |
| **Total assets** | | 318,030,942 | 408,611,469 |
| **Current liabilities** | | | |
| Financial liabilities measured at amortised cost: | | | |
| Accounts payable | | 4,183,722 | 2,088,940 |
| Distributions payable | | 2,877,054 | 3,346,603 |
| Interest bearing liabilities | 9 | 64,000,000 | 122,000,000 |
| Deferred income | | 452,790 | 3,665,368 |
| **Total liabilities (excluding net assets attributable to investors)** | | 71,513,566 | 131,100,911 |
| **Net assets attributable to investors - liability** | 4 | 246,517,276 | 277,510,458 |
| **Net assets** | | 100 | 100 |
| **Equity** | | 100 | 100 |

*The balance sheet is to be read in conjunction with the notes to the financial statements*

**EQUITITRUST INCOME FUND**
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**STATEMENT OF CHANGES IN EQUITY**

**FOR THE YEAR ENDED 30 JUNE 2009**

| | Settlement sum | | Total equity | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| | **$** | **$** | **$** | **$** |
| **Opening balance** | 100 | 100 | 100 | 100 |
| Net profit/(loss) for the period | - | - | - | - |
| **Closing balance** | 100 | 100 | 100 | 100 |

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

**EQUITITRUST INCOME FUND**
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## STATEMENT OF CASH FLOWS

## FOR THE YEAR ENDED 30 JUNE 2009

| | Note | 2009<br>$ | 2008<br>$ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest received – mortgage loans | | 40,387,072 | 53,461,419 |
| Interest received – cash and cash equivalents | | 151,740 | 434,540 |
| Distributions paid to investors | | (19,857,639) | (24,987,786) |
| Interest paid | | (7,746,510) | (10,007,608) |
| Return on Responsible Entity's subordinated investment | | (8,028,787) | - |
| Management fee | | (5,057,557) | - |
| Interest Warranty fee | | - | (21,400,017) |
| Net cash flows (used in)/from operating activities | 7b | (151,681) | (2,499,452) |
| **Cash flows from investing activities** | | | |
| Mortgage loans advanced | | (130,955,040) | (344,656,529) |
| Mortgage loans repaid | | 222,952,472 | 315,909,057 |
| Net cash (used in) investing activities | | 91,997,432 | (28,747,472) |
| **Cash flow from financing activities** | | | |
| Proceeds from issue of redeemable units – investors | | 53,493,674 | 200,029,417 |
| Payments on redemption of redeemable units – investors | | (84,486,856) | (195,825,363) |
| Proceeds from borrowings | | - | 17,000,000 |
| Repayment of borrowings | | (58,000,000) | - |
| Net cash from investors' activities | | (88,993,182) | 21,204,054 |
| Net increase in cash and cash equivalents | | 2,852,569 | (10,042,870) |
| Cash and cash equivalents at 1 July | | 9,786,260 | 19,829,130 |
| Cash and cash equivalents at 30 June | 7a | 12,638,829 | 9,786,260 |

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

**EQUITITRUST INCOME FUND**
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## NOTES TO THE FINANCIAL STATEMENTS

### 1. Reporting entity

Equititrust Income Fund (the 'Scheme') is a registered managed investment Scheme under the Corporations Act 2001. The financial report of the Scheme is for the year ended 30 June 2009.

### 2. Basis of preparation

#### (a) Statement of compliance

The financial report is a general purpose financial report, which has been prepared in accordance with Australian Accounting Standards ("AASBs") adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. The financial report of the Scheme complies with International Financial Reporting Standards " IFRS" and interpretations adopted by the International Accounting Standards Board.

The financial statements were approved by the Board of Directors of the Responsible Entity on 30 September 2009.

#### (b) Basis of measurement

The financial report is prepared on the historical cost basis except that financial instruments classified as available for sale are stated at their fair value.

The financial report has been prepared on a going concern basis as described in Note 3(i) having regard to the management of the liquidity risk outlined in Note 10(c)(iii).

#### (c) Functional and presentation currency

The financial report is presented in Australian dollars which is the Scheme's functional currency.

#### (d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that effect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. 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 and in any future periods affected.

In particular, information about the most significant area of estimation uncertainty and critical judgement in applying accounting policies that has the most significant effect on the amount recognised in the financial statements are discussed in the following notes:

Note 3 (a) (iv) and Note 11 - mortgage loans - impairment

Note 3 (i) - going concern

Note 10(c)(iii) – liquidity risk

### 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in the financial statements. The Scheme has elected to early adopt the following accounting standards:

- AASB 8 *Operating Segments* and related amendments to AASB 2007-3 *Amendments to Australian Accounting Standards arising from AASB 8 (*February 2007). The impact of early adoption of this standard has been to remove disclosures previously presented under AASB 114 *Segment Reporting.*

## 3. Significant accounting policies (cont)

### (a) Financial instruments

#### (i) Classification

Financial instruments comprise cash and cash equivalents, investments in units in unlisted schemes, loan receivables, cash and cash equivalents, accounts payable and borrowings.

#### (ii) Recognition

The Scheme recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument.

#### (iii) Measurement

Financial instruments are measured initially at fair value plus transactions costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent to initial recognition, financial assets classified as loans and receivables are carried at amortised cost using the effective interest rate method, less impairment losses if any.

Financial liabilities are measured at amortised cost using the effective interest rate.

Financial liabilities arising from investors' funds are carried at the redemption amount representing the investors' right to a residual interest in the Scheme's assets, effectively fair value at reporting date.

#### (iv) Impairment

Financial assets that are stated at cost or amortised cost are reviewed at each balance date to determine whether there is objective evidence of impairment. If any such indication exists, an impairment loss is recognised in the income statement as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

If in a subsequent period the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the income statement.

#### (v) Derecognition

The Scheme derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition in accordance with AASB 139.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

#### (vi) Cash and Cash Equivalents

Cash comprises current deposits with banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investments or other purposes.

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**NOTES TO THE FINANCIAL STATEMENTS**

**3. Significant accounting policies (cont)**

**(b) Interest income**

Interest revenue is recognised in the income statement as it accrues, using the effective interest method. The effective interest method is based on the rate that exactly discounts estimated future cash flows of each loan, which includes interest received on a loan and establishment fees.

**(c) Expenses**

All expenses, including management fees, are recognised in the income statement on an accrual basis.

**(d) Distribution and taxation**

Under current legislation the Scheme is not subject to income tax as the taxable income (including assessable realised capital gains) is distributed in full to the investors. The Scheme fully distributes its distributable income, calculated in accordance with the Scheme constitution and applicable taxation legislation, to the members who are presently entitled to the income under the constitution.

Financial instruments held at fair value may include unrealised capital gains. Should such a gain be realised that portion of the gain that is subject to capital gains tax will be distributed so that the Scheme is not subject to capital gains tax.

Realised capital losses are not distributed to investors but are retained in the Scheme to be offset against any future realised capital gains. If realised capital gains exceed realised capital losses the excess is distributed to the investors.

**(e) Redeemable units**

All redeemable units issued by the Scheme provide the investors with the right to require redemption for cash and give rise to a financial liability. In accordance with the Product Disclosure Statement the Scheme is contractually obliged to redeem units at redemption price. The redeemable units are included in the balance sheet as a liability and disclosed as net assets attributable to investors.

**(f) Finance costs**

Distributions paid and payable on units are recognised in the income statement as distribution expenses to investors and as a liability where not paid. Distributions paid are included in cash flows from operating activities in the statement of cash flows. Interest in interest bearing liabilities is expensed on an accrual basis.

**(g) Goods and services tax**

Management fees and other expenses are recognised net of the amount of goods and services tax (GST) recoverable from the Australian Taxation office (ATO) as a reduced input tax credit (RITC). Payables are stated with the amount of GST included. The net amount of GST recoverable from the ATO is included in receivables in the balance sheet. Cash flows are included in the statement of cash flows on a gross basis.

**(h) New standards and interpretations not yet adopted**

The following standards, amendments to standards and interpretations have been identified as those that may impact the Scheme in the period of initial application. They were available for early adoption at 30 June 2009, but have not been applied in preparing these financial statements.

**3. Significant accounting policies**

**(h) New standards and interpretations not yet adopted (cont)**

- Revised AASB 101 *Presentation of Financial Statements* (September 07) introduces as a financial statement (formerly “primary” statement) the “statement of comprehensive income”. The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the Scheme’s 30 June 2010 financial statements. The Responsible Entity plans to provide total comprehensive income in the single statement of comprehensive income for its 2010 consolidated financial statements.

- AASB 2008-2 *Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation.* AASB 2008-02 changes the definition of a financial liability requiring puttable instruments that meet certain conditions to be classified as equity. AASB 2008-02 will become mandatory for the Scheme’s 30 June 2010 financial statements. The amendments are not expected to have any impact on the financial statements.

- AASB 2008-5 *Amendments to Australian Standards arising from the Annual Improvements Project (July 2008.* This standard provides a vehicle for making non-urgent but necessary amendments to Standards. The revised standard will be become mandatory for the Scheme’s June 2010 financial statements. The Responsible Entity has not yet determined the potential effect of the revised standard on the Scheme’s financial report.

- AASB I17 *Distributions of Non-cash Assets to Owners* provides guidance in respect of measuring the value of distributions of non-cash assets to owners. AI17 will become mandatory for the Scheme’s 30 June 2010 consolidated financial statements. The Responsible Entity has not yet determined the potential effect of the revised standard on the Scheme’s financial report.

**(i) Going Concern**

The financial statements have been prepared on a going concern basis which considers the continuation of normal business operations and the realisation of assets and settlement of liabilities in the normal course of operations. In making this assessment, management has considered future events and conditions and related cash flows for the twelve months following the approval of these financial statements.

The ongoing global credit crisis and the continuation of the Australian Federal Government guarantee given to authorised deposit-taking institutions continues to have a negative impact on the Scheme’s fundraising ability. On 30 October 2008, after receiving an elevated level of withdrawal requests from investors, the Responsible Entity decided to defer withdrawals for an initial period of 90 days. On 28 January 2009, electing not to invoke a further 90 and 180 day delay as permitted by the Scheme’s constitution, the Responsible Entity declared the Scheme to operate as non-liquid. This allowed the Scheme to make periodic withdrawal offers to all investors in the pending withdrawal pool. To date one pro-rata payment of $5,000,000 was made on 20 March 2009. Further pro-rata offers are planned, subject to available liquidity and bank approval.

As a consequence of these events the Responsible Entity deferred redemptions from Equititrust Income Fund and at the date of this report redemptions remain deferred. At the date of this report the Responsible Entity holds valid redemption requests totalling $49,694,805 which will either be repaid or converted to term investments, at the investors election, before the Funds can be reopened as liquid.

To assist liquidity the Responsible Entity has made an initial investment of $40,032,773 in subordinated units in the Scheme and is currently required to maintain a minimum investment of 40,000,000 units. These units are subordinated to the units held by other investors. The Responsible Entity has the ability to reduce the minimum investment provided it has the approval of bank credit line providers.

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**NOTES TO THE FINANCIAL STATEMENTS**

**3. Significant accounting policies (cont)**

**(i) Going Concern (cont)**

As set out in notes 9 and 14 the Scheme has two loan facilities of $30,000,000 and $35,000,000. The first of these finance facilities of $30,000,000, of which $15,000,000 has been repaid subsequent to year end, is an interest and principal reduction facility secured over the Scheme's mortgage loans and is repayable by 28 February 2010. Assuming terms of the extension are met, the facility repayment schedule granted requires remaining instalments to be paid on 31 October 2009 of $5,000,000, on 31 December 2009 of $5,000,000 and a final instalment of $5,000,000 is payable on 28 February 2010. The second of these facilities is an interest only facility that is secured over the Scheme's mortgage loans and expires on 31 October 2009. The facility is currently being negotiated for an extension for a further 12 months on comparable terms and conditions. The Responsible Entity considers that this extension will be obtained.

The directors' cash flow projection support the ability of the Scheme to meet its obligations, incorporating critical assumptions in respect of mortgage loan repayments. Loans and borrowings are subject to maintaining certain loan covenants. Provided these are maintained the bank facilities will remain in place. The directors, based on the assumptions in the future cash flows, are of the opinion that bank covenants will be maintained over the next 12 months.

The ongoing business operations contemplate continuation as a registered managed scheme to invest primarily in registered first mortgages secured on real property with a reduction in the level of loans and receivables compared to the level at 30 June 2009.

In the event the Scheme is unable to realise sufficient cash funds from the repayment of existing mortgage loans to meet loan repayment conditions and pay valid redemption requests, a material uncertainty may exist in respect of the Scheme's ability to continue as a going concern. In the event that the Scheme cannot continue as a going concern it may not realise its assets or settle its liabilities in the normal course of operations and at the amounts stated in the financial report.

**4. Net assets attributable to investors - liability**

| | ***Opening Balance*** | ***Applications*** | ***Transfers*** | ***Redemptions*** | ***Closing Balance*** |
|---|---|---|---|---|---|
| | ***$*** | ***$*** | ***$*** | ***$*** | ***$*** |
| **30 June 2009** | | | | | |
| Ordinary investments | 277,510,458 | 13,193,674 | (42,136,143) | (42,083,486) | 248,620,646 |
| Subordinated investments | - | 40,300,000 | 42,136,143 | (42,403,370) | 40,032,773 |
| Total | 277,510,458 | 53,493,674 | - | (84,486,856) | 246,517,276 |
| **30 June 2008** | | | | | |
| Ordinary investments | 273,306,404 | 200,029,417 | - | (195,825,363) | 277,510,458 |
| Total | 273,306,404 | 200,029,417 | - | (195,825,363) | 277,510,458 |

Two classes of interests exist within the Scheme: normal units held by investors and subordinated units held by the Responsible Entity. Under the Scheme's constitution each unit represents a right to an individual share in the Scheme and does not extend to a right to the underlying assets of the Scheme. On 1 July 2009 the Responsible Entity's investment in the Scheme of $42,136,143 was converted into subordinated units. The rights attached these units were subordinated to those of other investors. All units in the Fund outstanding at 30 June 2009 have a term to maturity of 1 year or less. All units in the Scheme outstanding at 30 June 2009 have a term to maturity of 1 year or less.

The rate of distribution paid to each investor is set at the time of entering into the mortgage investment. The average distribution rate for period ending 30 June 2009 was 9.08% (2008: 8.46%).

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**NOTES TO THE FINANCIAL STATEMENTS**

**4. Net assets attributable to investors – liability (cont)**

The distribution paid on subordinated units is the surplus that remains after the payment of:

- expenses of the Scheme
- benchmark returns to members; and
- management fees of the Responsible Entity.

This payment was equivalent to an annual distribution rate of 27.66% on the Responsible Entity's investment.

| | 2009 $ | 2008 $ |
|---|---|---|
| **5. Interest Income** | | |
| Interest income arises from: | | |
| Cash and cash equivalents | 319,607 | 458,308 |
| Investments in mortgages | 43,344,650 | 55,165,418 |
| | 43,664,257 | 55,623,726 |
| **6. Auditors remuneration** | | |
| Audit fees paid by the Responsible Entity | | |
| On behalf of the Scheme: | | |
| Audit and review of the financial report | 78,050 | 93,350 |
| Other services | | |
| - Other assurance services | - | 36,850 |
| | 78,050 | 130,200 |
| **7. (a) Cash and cash equivalents** | | |
| Current deposits with banks | 12,638,829 | 9,786,260 |
| | 12,638,829 | 9,786,260 |
| **(b) Reconciliation of cash flows from operating activities** | | |
| Net profit | - | - |
| Impairment losses – mortgage loans | 1,122,782 | - |
| Changes in operating assets and liabilities: | | |
| Interest receivable | 1,383,760 | 77,512 |
| Accounts payable | 2,094,783 | 212,404 |
| Accounts receivable | (880,950) | (1,204,844) |
| Deferred income | (3,402,506) | (1,140,095) |
| Distribution payable | (469,550) | (444,428) |
| Cash flows from operating activities | (151,681) | (2,499,451) |
| **8. Distributions paid and payable** | | |
| The distributions for the financial year comprise: | | |
| Total distributions paid | 16,511,036 | 21,196,754 |
| Total distributions payable | 2,877,054 | 3,346,603 |
| | 19,388,090 | 24,543,357 |

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## 9. Interest bearing liabilities

This note provides information about the contractual terms of the Scheme's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Scheme's exposure to interest rate and liquidity risk, see Note 10.

| | 2009<br>$ | 2008<br>$ |
|---|---|---|
| Borrowings secured - first registered mortgage debenture charge over the assets of the Scheme | 29,000,000 | 87,000,000 |
| Borrowings secured - second registered mortgage debenture charge over the assets of the Scheme | 35,000,000 | 35,000,000 |
| | 64,000,000 | 122,000,000 |

The first of these finance facilities of $30,000,000 is an interest and principal reduction facility secured over the Scheme's mortgage loans and is repayable by 31 October 2009. This facility was utilised up to $29,000,000 at 30 June 2009 (2008:$87,000,000) with a further $750,865 utilised for borrower bank guarantees and unutilised facilities available of $249,135 (2008: $249,240). A facility repayment extension has been granted subsequent to year –end to 28 February 2010 with instalments payable on 30 September 2009 of $15,000,000 , on 31 October 2009 of $5,000,000, on 31 December 2009 of $5,000,000 and the remaining instalment of $5,000,000 by 28 February 2010. The first instalment of $15,000,000 was paid by 30 September 2009. The second of these facilities is an interest only facility that is secured over the Scheme's mortgage loans and expires on 31 October 2009. The facility is currently being negotiated for an extension for a further 12 months on comparable terms and conditions. The Responsible Entity considers that this extension will be obtained.

The two facilities were utilised up $64,000,000 at 30 June 2009 (2008:$122,000,000) with unutilised facilities available of $249,135 (2008: $249,240).

Interest is charged at a variable rate. At year end the weighted effective average interest rate on these facilities was 6.63% per annum (2008: 8.66%).

Loans and borrowings are subject to maintaining certain loan covenants. If these covenants are not maintained, the Scheme has 14 days in which to rectify the loan covenant. One of the covenants is to maintain a set debt to eligible asset ratio percentage. The $30,000,000 facility, which has been reduced to $15,000,000 as at 30 September 2009, requires a maximum of 25% be maintained. The $35,000,000 facility requires a combined debt of $65,000,000 to eligible asset percentage of no more than 27.5%. If the debt to eligible asset ratio is exceeded and not rectified within 14 days the banks are entitled to review the facilities and may decide to do all or any of the following:

(a) by notice to the borrower declare the secured money immediately due and payable, and the borrower shall immediately pay the secured money;

(b) by notice to the borrower cancel the commitment;

(c) at the cost of the borrower, appoint a firm of independent accountants or other experts to review and report to the lender on the affairs, financial condition and business generally of the borrower and the Scheme.

The facility provider advised a breach of an additional loan covenant that requires no individual loan to exceed 12.5% of total loans, had occurred. Whilst the bank will not be exercising its rights as set out above in (a) to (c) it has reserved its rights until such time as their debt is extinguished on 28 February 2010. Cash flow forecasts indicate that repayment of the remainder of the facility as at 30 September 2009 of $15,000,000 will be achieved by the required date. The Scheme continues to meet all other loan covenants of both facility providers.

At 30 June 2009, the debt ratio was 10.39% (2008: 22.5%) in respect of the first facility and 26.35% (2008:8.8%) for the second facility.

## 10. Financial instruments

### a. Overview

The Scheme's assets principally consist of loans secured by registered first mortgages over real property and cash investments. It holds these investment assets at the discretion of Equititrust Ltd, the Scheme's Responsible Entity, and in accordance with the Scheme's constitution and Product Disclosure Statement.

The allocation of assets between the various types of financial instruments described above is determined by the Responsible Entity who manages the Scheme's portfolio of assets to achieve the Scheme's investment objectives.

The Scheme's investing activities expose it to the following risks from its use of financial instruments:

- market risk
- credit risk
- liquidity risk

The nature and extent of the financial instruments employed by the Scheme are discussed below. This note presents information about the Scheme's exposure to each of the above risks, the Scheme's objectives, policies and processes for measuring and managing risk.

The Board of Directors of the Responsible Entity has overall responsibility for the establishment and oversight of the Fund's risk management framework.

The Board is responsible for developing and monitoring the Scheme's risk management policies, including those related to its investment activities. The Responsible Entity's risk management policies are established to identify and analyse the risks faced by the Scheme, including those risks managed by the Responsible Entity, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Scheme's activities.

The Management Committee reviews risk regularly and reports any significant issues to the Board. The Management Committee monitors the controls that are in place to manage compliance with the Scheme's investment strategy, training and personnel management standards and procedures. The Management Committee also ensures the Responsible Entity develops and maintains a disciplined and constructive control environment in which its employees understand their roles and obligations.

The Compliance Officer and Management Committee oversees how the Responsible Entity monitors compliance with the Fund's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Fund.

### b. Estimation of fair values

The major method and assumptions used in estimating the fair values of financial instruments were disclosed in Note 3 of the significant accounting policies section.

The Scheme has no unrecognised financial instruments at the year-end.

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities:

***Cash and cash equivalents and mortgage loans***

The carrying value approximates fair value because of their variable interest rate and/or short term to maturity.

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## 10. Financial instruments

### a. Overview (cont)

***Investments***

Fair value and the carrying value are based on redemption prices at balance sheet date without any deduction for transaction costs.

***Investors' funds***

Fair value and the carrying value are based on net asset backing prices at balance sheet date without any deduction for transaction costs.

***Payables and interest receivable***

The carrying value approximates fair value, due to the short term to repayment.

***Interest bearing loans***

The carrying value approximates fair value because of their variable interest rate and/or short term to maturity.

#### (i) Market risk

Market risk is the risk that changes in market prices, such as interest rates and property values will affect the Fund's income or the value of its holdings of financial instruments. Market risk embodies the potential for both loss and gains. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Fund's strategy on the management of the investment risk is driven by the Fund's investment objective. The Fund's objective is designed to provide investors with regular fixed income from a pool of high yielding mortgage loans secured by registered first mortgages over real property and in certain circumstances collateral security.

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**NOTES TO THE FINANCIAL STATEMENTS**

**10. Financial instruments (cont)**

**c. Financial risk management**

**(i) Market risk**

**(a) Interest rate risk**

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The majority of the Scheme's financial assets are interest-bearing. The extent to which interest-bearing financial assets and interest-bearing financial liabilities are subject to variable interest rates limits the Scheme's exposure to fair value interest rate risk due to fluctuations in the prevailing levels of market interest rates. Whilst interest rate risk exposure exists on the fixed interest bearing financial liabilities in the instance where there are market interest rate reductions, the Responsible Entity is satisfied that borrower interest rates have been set sufficiently high enough to absorb the effect of a decrease in interest rates.

The Scheme's interest rate risk is managed on a daily basis by management in accordance with policies and procedures in place.

The Scheme's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities and the periods in which they reprise, is set out below:

| | **Effective average interest rate** | | **Floating interest rate** | | **Fixed interest** | | **Total** | |
|---|---|---|---|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** | **2009** | **2008** | **2009** | **2008** |
| | **%** | **%** | **$** | **$** | **$** | **$** | **$** | **$** |
| **Financial assets** | | | | | | | | |
| Cash and cash equivalents | 2.50% | 6.75% | 12,638,829 | 9,786,260 | - | - | 12,638,829 | 9,786,260 |
| Mortgage loans | 12.12% | 14.07% | 301,837,210 | 394,957,425 | - | - | 301,837,210 | 394,957,425 |
| | | | 314,476,039 | 404,743,685 | - | - | 314,476,039 | 404,743,685 |
| **Financial liabilities** | | | | | | | | |
| Interest bearing liabilities | 6.63% | 8.66% | 64,000,000 | 122,000,000 | - | - | 64,000,000 | 122,000,000 |
| Investor funds | 8.58% | 8.82% | - | - | 246,517,276 | 277,510,458 | 246,517,276 | 277,510,458 |
| | | | 64,000,000 | 122,000,000 | 246,517,276 | 277,510,458 | 310,517,276 | 399,510,458 |

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**NOTES TO THE FINANCIAL STATEMENTS**

**10. Financial instruments (cont)**

**c. Financial risk management**

**(i) Market risk**

**(a) Interest rate risk (cont)**

All other financial assets and liabilities are non-interest bearing. The Scheme does not hedge its interest rate exposure.

***Interest rate sensitivity***

Mortgage loans rates are variable and increase or decrease in association with an increase in general market interest rates. However mortgage interest rates on existing loans will not necessarily decrease when there is a decrease in market rates but will increase when rates increase. All new mortgage loans take into account current market interest rates and are reflective of any increase or decreases in market rates.

Investor rates are fixed. However rates are varied up or down on new investments dependant on market interest rates and market sentiment.

A sensitivity analysis has been performed assuming an increase and decrease in interest rates of 100 points. An increase in interest rates of 100 points will result in the following: an increase in interest income of $3,483,803 (2008: $4,104,119); an increase in interest expense of $1,168,081 ($1,181,094); an increase distribution expense to investors of $1,129,842 (2008: $1,450,839); and an increase return on the Responsible Entity's subordinated investment of $1,185,879 (2008: $1,472,186). The net effect of these increases will have no effect on the net assets attributable to investors. A similar decrease in interest rates would have an opposite impact on interest income, interest expense, distribution expense to investors, and return on the Responsible Entity's subordinated investment of the same amount. This would have no effect on the net assets attributable to investors. However the sensitivity indicates that the operating results would still adequately meet investor fixed returns.

**(b) Property value risk**

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 due to 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% at commencement of a loan; and
- Regular valuations of security properties by registered panel-valuers.

The property and the financial services sectors have experienced significant adverse market conditions during and subsequent to year-end. These conditions may result in a decline in property values, which should they be significant, may result in diminished security values, which may result in losses should properties held as security be realised below the loan and receivable book values.

***Property value sensitivity***

The Scheme loan to valuation ratio ("LVR") restriction on mortgage loans is 80%. At 30 June 2009 the weighted average LVR of the Scheme was 60.3% (2008: 63.4%) based on mortgage values at commencement of a loan

The Board of the Responsible Entity do not anticipate a reduction in property values by more than 10%. At 30 June 2009 an impairment loss of $1,122,782 (2008: nil) has been incurred. An increase in property prices by 10% would reduce these impairment losses to $688,617.

A decrease of 10% in property values would result in additional impairment losses of $457,455.

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**NOTES TO THE FINANCIAL STATEMENTS**

**10. Financial instruments (cont)**

**c. Financial risk management**

**(ii) Credit risk**

Credit risk is the risk that a counter party to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Scheme. The total credit risk for recognised items is limited to the amount carried on the balance sheet. The Responsible Entity manages the exposure to credit risk on an ongoing basis.

The carrying amount of the Scheme’s financial assets represents the maximum credit exposure and the Scheme’s maximum exposure to credit risk at the reporting date was:

| | 2009<br>$ | 2008<br>$ |
|---|---|---|
| Cash and cash equivalents | 12,638,829 | 9,786,260 |
| Receivables | 3,554,903 | 3,867,784 |
| Mortgage loans receivable | 301,837,210 | 394,957,425 |
| **Total assets** | 318,030,942 | 408,611,469 |

Cash held by the Scheme is held by Australian regulated banks.

A component of the Scheme’s first mortgage loan assets are construction and development loans which require a high degree of experience in their assessment and management. The Responsible Entity has a specialised lending team which focuses on each proposed loan and the credentials of the borrower and associated entities. As a security lender the Responsible Entity primarily relies on the value of the underlying security property for its loans.

This risk is minimised by prudent assessment of loans and valuations of each security property by independent approved valuers who make up the Responsible Entities panel of valuers. Credit assessment procedures are also conducted on prospective borrowers.

The Scheme minimises concentrations of credit risk by undertaking transactions with a number of customers and counterparties. A concentration of credit risk exists in respect of mortgage loans with a total of seven loans individually exceeding 5% of the total value of mortgage loans and which represent $208,720,464 (69.15%) of total loans existing at 30 June 2009. At 30 June 2008 the Scheme was exposed to a concentration of credit risk in respect of seven loans individually exceeding 5% of the total value of mortgage loans and which represented $207,869,149 (52.63%) of mortgage loans.

The Scheme’s exposure to credit risk for mortgage loans (excluding associated interest receivable) at the reporting date by geographical areas was:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | $ | % | $ | % |
| Gold Coast | 62,573,953 | 21 | 90,613,809 | 23 |
| Brisbane/Sunshine Coast | 62,875,990 | 21 | 66,363,408 | 17 |
| Qld - Other | 41,842,165 | 14 | 88,854,287 | 23 |
| Sydney | 31,988,570 | 10 | 43,027,663 | 11 |
| NSW - Other | 69,657,112 | 23 | 88,245,738 | 22 |
| Other States | 32,899,420 | 11 | 17,852,520 | 4 |
| | 301,837,210 | 100 | 394,957,425 | 100 |

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**NOTES TO THE FINANCIAL STATEMENTS**

**10. Financial instruments (cont)**

**c. Financial risk management**

**(ii) Credit risk (cont)**

The Scheme's exposure to credit risk for mortgage loans (excluding associated interest receivable) at the reporting date by property security type was:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | **$** | **%** | **$** | **%** |
| Static loans | | | | |
| Residential | 107,949,169 | 36 | 32,106,113 | 8 |
| Commercial | 84,043,496 | 28 | 57,606,159 | 15 |
| Future development | - | - | 31,304,674 | 8 |
| Land | 22,047,689 | 7 | 18,575,499 | 5 |
| | 214,040,354 | 71 | 139,592,445 | 36 |
| Construction and development | | | | |
| Residential | 87,796,856 | 29 | 92,519,656 | 23 |
| Commercial/Industrial | - | - | 14,944,564 | 4 |
| Land subdivision | - | - | 147,900,761 | 37 |
| | 87,796,856 | 29 | 255,364,981 | 64 |
| Total | 301,837,210 | 100 | 394,957,426 | 100 |

The scheduled maturity of mortgage loans (excluding associated interest receivable) at the reporting date was:

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | **Number of loans** | **$** | **%** | **Number of loans** | **$** | **%** |
| Less than 3 months | 45 | 233,135,541 | 77 | 44 | 146,441,745 | 37 |
| 3 months to 12 months | 12 | 66,713,115 | 22 | 65 | 245,705,447 | 62 |
| **Total: 1 year or less** | **57** | **299,848,656** | **99** | **109** | **392,147,192** | **99** |
| Greater than 12 months | 1 | 1,988,554 | 1 | 1 | 2,810,233 | 1 |
| | **58** | **301,837,210** | **100** | **110** | **394,957,425** | **100** |

Due to the current state of the financial markets, property market, and liquidity crisis, the actual amounts receivable to 30 June 2010 will be less than the scheduled maturities within 12 months of $299,848,656 (2008: $392,147,192).

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**NOTES TO THE FINANCIAL STATEMENTS**

## 10. Financial instruments (cont)

### c. Financial risk management

### (ii) Credit risk (cont)

The aging of the Scheme's mortgage loans at reporting date was:

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | Number of loans | $ | % | Number of loans | $ | % |
| Not past due | 48 | 286,132,634 | 94 | 102 | 383,989,528 | 97 |
| Past due 0-30 days | 7 | 10,964,888 | 4 | 1 | 6,829,637 | 2 |
| Past due 31-60 days | - | - | - | 1 | 287,572 | - |
| Past due 61 - 90 days | 1 | 2,956,836 | 1 | - | - | - |
| Past due 91 – 120 days | - | - | - | 2 | 663,000 | - |
| Past due > 120 days | 2 | 1,782,852 | 1 | 4 | 3,187,688 | 1 |
| | 58 | 301,837,210 | 100 | 110 | 394,957,425 | 100 |

Based on valuations of underlying security being significantly higher than the balance due for all past due loans no impairment allowance was considered necessary in relation to the outstanding amounts.

Loans which have been renegotiated whose carrying amount would otherwise be impaired or past due as at reporting date were as follows:

| 2009 | | | 2008 | | |
|---|---|---|---|---|---|
| Number of loans | $ | % | Number of loans | $ | % |
| 26 | 73,235,423 | 24 | 27 | 69,049,941 | 17 |

These loans are not considered at risk and have been re-negotiated on terms that enable timely payment and adequate yield.

**Mortgagee in possession**

The Scheme has exercised its power of sale and taken possession of security property in respect of the following loans:

**2009:**

| **Property description** | | **Loan balance** | **LVR** |
|---|---|---|---|
| | | **$** | **%** |
| (i) | Commercial development | 12,813,934 | 68 |
| (ii) | Residential lots | 1,418,972 | 64 |
| (iii) | Residential lots | 1,289,455 | 67 |
| (iv) | Residential lots | 847,385 | 60 |
| (v) | Residential lots | 493,396 | 64 |
| **Total** | | 16,863,142 | |

Properties are disposed of in accordance with section 7.9 of the Scheme's Prudential Lending Manual. The Responsible Entity is satisfied that the sale of the security properties will ensure full repayment of the loan assets.

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**NOTES TO THE FINANCIAL STATEMENTS**

**10. Financial instruments**

**c. Financial risk management**

**(ii) Credit risk**

**Mortgagee in possession (cont)**

(i) Rental income of $1,000,000 has been secured on this property. Directors are satisfied that this loan with be recovered in full.

(ii) Six lots have been sold with anticipated settlement prior to September 2009. Directors are satisfied that this loan with be recovered in full.

(iii) Security value is well in excess of debt. Directors are satisfied that this loan will be recovered in full.

(iv) Subsequent to reporting date one lot was sold for $650,000. Recovery of the balance outstanding is expected during August 2009.

(v) Subsequent to reporting date one lot was sold for $71,185. Directors consider that this loan will be recovered in full.

**2008:**

| **Property description** | **Loan balance** | **LVR** |
|---|---|---|
| | **$** | **%** |
| Residential lots | 5,495,192 | 58 |
| Residential lots | 2,810,233 | 47 |
| **Total** | 8,305,425 | |

**Pledge of loan book as collateral**

The Scheme assets have been pledged to banks as security for loan facilities provided. The banks have registered a first and second mortgage debenture charge on the Scheme's assets. These charges are limited to the extent of the drawn facilities. The facilities have been used to advance loans to borrowers on first mortgage security. These loan advances form part of Scheme assets.

**(iii) Liquidity risk**

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.

The Scheme's financial instruments are primarily investments in first mortgage loans, and accordingly a risk exists as to whether the Scheme can meet payment of the contractual maturity of the financial liabilities from the funds received on the repayment of first mortgage loans.

The Scheme's constitution provides for the daily application and redemptions of units and it is therefore exposed to the liquidity risk of meeting investor redemptions at any time. As the underlying investment security is property, which is relatively illiquid, the ability of an investor to withdraw from the Scheme at the end of the term may be affected.

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**NOTES TO THE FINANCIAL STATEMENTS**

**10. Financial instruments**

**c. Financial risk management**

**(iii) Liquidity risk (cont)**

In the event that the Scheme was unable to meet withdrawal requests, the Responsible Entity can invoke the liquidity protection rules contained within the Scheme's constitution, allowing for deferral in processing withdrawal requests by up to 360 days. If the withdrawal requests are unable to be satisfied within this extended timeframe, the Scheme can be made non-liquid in accordance with the Corporations Act 2001 and investors would be repaid when the Scheme has sufficient cash funds to do so.

The property and the financial services sectors have continued to experience significantly adverse market conditions during the year. This has resulted in delays in repayment from mortgage loan borrowers to the Scheme due to a variety of factors, outside the control of the Responsible Entity, including the decline of available credit in the market. The loss of confidence in the finance sector has also resulted in elevated withdrawal requests which led the Responsible Entity to defer withdrawals and ultimately operate the Fund as a non-liquid scheme.

The Responsible Entity continues to manage and mitigate the Scheme's liquidity risk through the following mitigating measures:

- Liquidity is managed on a daily basis by the Chief Financial Officer and Senior Lending Manager in accordance with liquidity policies and procedures. A detailed cash flow projection is utilised taking into consideration: estimated rollover of maturing investments; payment of loan instalments or loan repayments; and cash flows from operational activities. The Scheme's overall liquidity risks are monitored on a monthly basis by the management team and Chief Executive Officer.

- Lending to borrowers with mortgage security for periods generally not exceeding 12 months and only where borrowers meet the Scheme's lending criteria.

- Offering investments with fixed maturity of 6 to 12 months and maintaining competitive investments rates.

- Maintaining a minimum investment in the Scheme by the Responsible Entity of $40,000,000. Balance as at 30 June 2009 is $40,032,773. The Responsible Entity will have the discretion to reduce the minimum investment to $20,000,000 following the intended repayment of the existing facility of $30,000,000 by 28 February 2010.

The following are the contractual maturities of the financial liabilities, excluding estimated interest payments:

| 30 June 2009: | *Carrying amount* $ | *Contractual cash flows* $ | *6 mths or less* $ | *6-12 mths* $ | *1-2 years* $ |
|---|---|---|---|---|---|
| **Financial liabilities** | | | | | |
| Secured bank loans | 64,000,000 | 64,000,000 | 20,000,000 | 44,000,000 | - |
| Investors' funds | 246,517,276 | 246,517,276 | 165,876,619 | 80,640,657 | - |
| | | | | | |
| **30 June 2008:** | | | | | |
| **Financial liabilities** | | | | | |
| Secured bank loans | 122,000,000 | 122,000,000 | 35,000,000 | 87,000,000 | - |
| Investors' funds | 277,510,458 | 277,510,458 | 173,115,814 | 104,394,644 | - |

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**NOTES TO THE FINANCIAL STATEMENTS**

## 10. Financial instruments

### c. Financial risk management

### (iii) Liquidity risk (cont)

To minimise concentration risk secured bank loans are held with two banks. The $35,000,000 facility is subject to annual review due next on 31 October 2010. The term for the $30,000,000 facility, which is due for repayment by 31 October 2009, has been extended and is now repayable by 28 February 2010.

### (iv) Capital protection

The Responsible Entity's Board policy is to maintain a minimum investment of 40,000,000 units in the Scheme. The rights attached to this investment are subordinated to those of other investors. This affords protection to investors and banks that any first loss up to $40,000,000 will be absorbed by the Responsible Entity's investment. The Responsible Entity has the discretion to reduce the minimum investment to $20,000,000 following the intended repayment of the existing facility of $30,000,000 on the 28 February 2010. This will encourage market confidence and to sustain future development of the business.

The Board of Directors monitors the return on capital and the level of distributions to investors.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The Scheme is not subject to externally imposed capital requirements.

## 11. Impairment of mortgage loans

At 30 June 2009, 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; and
- Estimated time to realise mortgage loans.

As a result of this review, the Responsible Entity recorded impairment losses in respect of mortgage loans of $1,122,782 (2008: nil). This impairment loss is in respect of the following:

- A recent valuation obtained indicated that the value of a development site was lower than the current book value and the loan was impaired by $437,517 to reflect this.
- The sale price negotiated on finished stock indicated that sale proceeds would not cover the loan balance at settlement date. As a result the loan was impaired by $73,950. The sale was concluded at the settlement price on 17 August 2009.
- A recent valuation obtained indicates that the value of an apartment was lower than the current book value and the loan was impaired by $409,608 to reflect this.
- The anticipated sale proceeds on the sale of seven houses and three vacant lots are expected to be lower than the loan book value on a loan. As a result the loan has been impaired by $201,707.

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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:

**2009:**

| **Total Principal $** | **Estimated Value of Security $** | ***Estimated LVR %** | **Method of Assessing Value at 30 June 2009** | **Valuation Date Range** |
|---|---|---|---|---|
| i) 49,592,582 | 103,005,000 | 48 | Independent valuations | April 07 to March 09 |
| ii) 44,541,190 | 59,754,695 | 75 | Independent valuations | May 08 to February 09 |
| 30,042,588 | 63,272,200 | 47 | Independent valuations | January 08 to August 08 |
| 29,654,450 | 77,020,000 | 39 | Independent valuations | September 08 |
| ii) 20,274,312 | 30,166,000 | 70 | Independent valuations | April 09 to June 09 |
| ii) 19,301,418 | 28,715,000 | 67 | Independent valuations | June 09 |
| ii) 15,313,924 | 22,940,000 | 69 | Independent valuations | August 08 to January 09 |
| **208,720,464** | | | | |

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

i) Valuations for $5,100,000 were specifically obtained for balance sheet purposes. Instructions to the valuers stated that the property was not subject to a mortgagee sale and that current market value was to be assessed assuming an appropriate selling period for these properties. Valuations totalling $97,905,000 for collateralised property were obtained from valuers for mortgage purposes.

ii) Valuations for these properties were specifically obtained for balance sheet purposes. Instructions to the valuers stated that the property was not subject to a mortgagee sale and that current market value was to be assessed assuming an appropriate selling period for these properties.

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

**2008:**

| **Total Principal $** | **Estimated Value of Security $** | **Estimated LVR %** | **Method of Assessing Value at 30 June 2008** | **Valuation Date Range** |
|---|---|---|---|---|
| 38,148,697 | 53,694,900 | 75 | Independent valuations | May 07 to October 07 |
| 36,675,723 | 62,375,520 | 63 | Independent valuations | November 07 to May 08 |
| 30,038,066 | 93,075,300 | 62 | Independent valuations | April 05 to January 08 |
| 27,106,924 | 40,509,200 | 68 | Independent valuations | November 06 to July 07 |
| 26,150,653 | 55,183,003 | 53 | Independent valuations | May 07 to July 08 |
| 25,575,802 | 35,625,069 | 73 | Independent valuations | May 07 to July 08 |
| 24,173,283 | 42,033,960 | 63 | Independent valuations | 24 April 2007 |
| **207,869,149** | | | | |

**EQUITITRUST INCOME FUND**
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**NOTES TO THE FINANCIAL STATEMENTS**

## 11. Impairment of mortgage loans (cont)

Mortgage loans are secured by registered first mortgages. The impairment of mortgage loans at each balance date is based on assessment of impaired loans at balance date, which included an analysis of independent valuations of security properties and loan to valuation ratios, which do not initially exceed 80% (2008: 80%). LVR is calculated as the loan approved amount as a percentage of the value of security property held.

As at 30 June 2009, the following significant mortgage loans with a carrying value totalling $2,151,933 were in default. Loans in default refer to loans greater than 90 days in arrears. This includes the following significant loans:

(i) The Scheme held a mortgage loan with a carrying value of $1,447,717 at year-end and the loan-to-value ratio of this mortgage at year-end was 67%. The directors of the Responsible Entity consider this loan to be fully recoverable as the Scheme holds a registered first mortgage over the security property.

(ii) The Scheme held a mortgage loan with a carrying value of $704,216 at year-end and the loan-to-value ratio of this mortgage at year-end was 64%. The directors of the Responsible Entity consider this loan to be fully recoverable as the Scheme holds a registered first mortgage over the security property.

There are no other significant mortgage loans in default at 30 June 2009.

As at 30 June 2008, the following significant mortgage loans with a carrying value totalling $5,659,748 were in default. Loans in default refer to loans greater than 90 days in arrears. This included the following significant loans:

(i) The Scheme held a mortgage loan with a carrying value of $4,061,727 at year-end and the loan-to-value ratio of this mortgage at year-end was 47%. The directors of the Responsible Entity consider this loan to be fully recoverable as the Scheme holds a registered first mortgage over the security property.

(ii) The Scheme held a mortgage loan with a carrying value of $551,864 at year-end and the loan-to-value ratio of this mortgage at year-end was 66%. The directors of the Responsible Entity consider this loan to be fully recoverable as the Scheme holds a registered first mortgage over the security property.

There were no other significant mortgage loans in default at 30 June 2008.

## 12. Related parties

***Responsible Entity***

The Responsible Entity of Equititrust Income Fund during the financial year was Equititrust Limited (ABN 23 087 435 783). As a result of the return on its subordinated units being determined as the residual interest in Scheme surplus following distribution of investor returns and the protection afforded to investors by the Responsible Entity's subordinated investment in the Scheme, the Responsible Entity has been deemed by management to be the Scheme's ultimate controlling party.

***Key management personnel***

The Scheme does not employ personnel in its own right. However it is required to have an incorporated Responsible Entity to manage the activities of the Scheme and this is considered the key management personnel.

No compensation is paid to directors or directly by the Scheme to any of the key management personnel of the Responsible Entity. The directors of the Responsible Entity are key management personnel of that entity and their names are listed below:

**EQUITITRUST INCOME FUND**
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**NOTES TO THE FINANCIAL STATEMENTS**

## 12. Related parties (cont)

| Name | Period of directorship |
|---|---|
| Mark McIvor | Appointed 1 July 1995 |
| Thomas John Haney | Appointed 3 July 2000 |
| Wayne McIvor | Appointed 10 August 2000 |

**Responsible entity fees and other transactions**

| | 2009 | 2008 |
|---|---|---|
| | $ | $ |
| Interest warranty fees | - | 21,072,761 |
| Management fees | 5,494,519 | - |
| Return on Responsible Entity's subordinated investment | 9,913,410 | - |
| | 15,407,929 | 21,072,761 |

The Responsible Entity has replaced its income warranty fee with a management fee of up to 1.5% p.a. of funds under management. In addition, the Responsible Entity is entitled to receive a return on its subordinated investment of 40,032,773 units. This return is the amount remaining after payment of Scheme expenses, the payment of investors up to their benchmark return and the management fee.

Management fees of $436,740 were outstanding as at 30 June 2009. Returns outstanding on the Responsible Entity's subordinated investment at 30 June 2009 were $3,737,917.

Interest warranty fees outstanding as at 30 June 2008 were $1,549,279.

***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 (2008: nil).

***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:

| 30 June 2009 | Unit Holding | Interest held | Applications | Withdrawals | Distributions paid/payable |
|---|---|---|---|---|---|
| Equititrust Ltd | 40,032,773 | 16.24% | *$40,300,000 | *$42,403,369 | $9,913,409 |
| Shakespeare Haney Premium Income Fund | 5,232,389 | 2.12% | - | $2,767,711 | $571,363 |
| MM Holdings Pty Ltd | 871,852 | 0.35% | 871,852 | - | $43,265 |

***** These applications and withdrawals were made prior to the deferral of redemption on 31 October 2008.

**EQUITITRUST INCOME FUND**
**ARSN 089 079 854**

**NOTES TO THE FINANCIAL STATEMENTS**

## 12. Related parties (cont)

***Units in the Scheme held by other related parties***

| 30 June 2008 | Unit Holding | Interest held | Applications | Withdrawals | Distributions paid/payable |
|---|---|---|---|---|---|
| Equititrust Ltd | 42,136,143 | 15.18% | $146,648,000 | $104,511,857 | $2,621,700 |
| Shakespeare Haney Premium Income Fund | 8,000,000 | 2.88% | $8,000,000 | - | $284,411 |

***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 reporting period.

***Other transactions within 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 year end.

## 13. Commitments and contingent assets and liabilities

There are contingent liabilities of $750,865 (2008: $2,874,118) 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.

## 14. Events subsequent to reporting date

Subsequent to year-end, Equititrust Income Fund has received an email dated 29 September 2009 from the financier approving the extension of an existing bank facility of $30,000,000 to 28 February 2010 on the basis of four instalment repayments of $15,000,000 on 30 September 2009, $5,000,000 by 31 October 2009, $5,000,000 by 31 December 2009 and the remaining $5,000,000 by 28 February 2010 which will include alterations in facility terms and conditions, covenants and undertakings. As at 30 September 2009 the first instalment of $15,000,000 had been met. The responsible entity has advised investors that income distributions will continue to be paid as and when they fall due and hardship redemptions will be paid as allowed for by ASIC's new relief instrument and the Bank's approved limit. Redemption offers are contingent upon repayment of the remaining facility and appropriate liquidity being available.

## 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 30, 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 30 June 2009 and of its performance, as presented by the results of its operations and its cash flows, for the year ended on that date; and

   (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

2. the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a)

3. 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.

Mark McIvor
Director

Gold Coast

30 September 2009

## Independent auditor's report to the investors of Equititrust Income Fund

### Report on the financial report

We have audited the financial report of Equititrust Income Fund ('the Scheme'), which comprises the balance sheet as at 30 June 2009, and the income statement, statement of recognised income and expense and statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 14, and the directors' declaration set out on page 31.

*Directors' responsibility for the financial report*

The directors of Equititrust Limited ('the Responsible Entity') are responsible for the preparation and fair presentation of the 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 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. In note 2(a), the directors of the Responsible Entity also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

*Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001 and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Scheme's financial position, and of its performance.

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

*Independence*

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

*Auditor's opinion*

Whilst we draw your attention to the material uncertainties referred to below, in our opinion:

(a) the financial report of Equititrust Income Fund is in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the Scheme's financial position as at 30 June 2009 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a)

*Material uncertainty regarding continuation as a going concern*

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

KPMG

KPMG

P G Steer
Partner

Gold Coast

30 September 2009

*Building Relationship*

EQUITITRUST

Income & Finance

## Directorate


**Manager**
Equititrust Limited
ACN 061 383 944
ABN 74 061 383 944
AFSL 230 471

**Queensland Office**
**All correspondence**
**should be sent to**
**PO Box 8111 GCMC 9726 Qld**

67 Thomas Drive
Chevron Island Qld 4217
Tel: 07 · 5527 5527
Freecall 1800 · 635 527
Fax: 07 · 5527 5900
info@equititrust.com.au
www.equititrust.com.au