EQUITITRUST CAPITAL

RESPONSIBLE ENTITY'S REPORT 2010

Equititrust Income Fund

ACN 061 383 944 ABN 74 061 383 944 AFSL 230471

EQUITITRUST INCOME FUND
ARSN 089 079 854

Annual Financial Report

30 June 2010

CONTENTS

	PAGE
DIRECTORS' REPORT	1
LEAD AUDITOR'S INDEPENDENCE DECLARATION	5
STATEMENT OF COMPREHENSIVE INCOME	7
STATEMENT OF FINANCIAL POSITION	8
STATEMENT OF CHANGES IN EQUITY	9
STATEMENT OF CASH FLOWS	10
NOTES TO FINANCIAL STATEMENTS	11
DIRECTORS DECLARATION	34
INDEPENDENT AUDITOR'S REPORT TO INVESTORS	35

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 2010 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 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.
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 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.
David Robert Walter Tucker Non-excutive 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.
Wayne McIvor Executive Director Mortgage Manager Resigned 14 May 2010	56	Wayne was a director of Equititrust since its inception and had particular skills in the real estate and property sector. He retired from Equititrust during the year to pursue other interests.

EQUITITRUST INCOME FUND
ARSN 089 079 854

DIRECTORS' REPORT

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. The Responsible Entity continued to operate the Scheme as a non-liquid fund for the year due to current economic financial conditions and the resultant adverse impact on the property market which have continued during the year.

Review and results of operations

At 30 June 2010 the Scheme had total assets of $281,637,265 (2009: $318,030,942). 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 2010.

The Scheme had impairment losses for the year ended 30 June 2010 of $1,855,596 (2009: $1,122,782) relating to impaired loans at balance date.

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 7.79% (2009: 8.58%).

Distributions paid or payable by the Scheme since the end of the previous financial year were $16,436,359 (2009: $19,388,090).

The cash flow from repayment of mortgage loans of $89,069,931 (2009: $222,952,472) after advances to mortgage loans of $44,427,143 (2009: 130,955,040) resulted in net cash inflows of $44,642,788 (2009: $91,997,432). This enabled the external finance debt to be reduced by $29,000,000 to $35,000,000 and redemption of investor funds of $10,675,129.

Investors Funds

The Scheme received $6,914,051 (2009: $53,493,856) of investor funds during the financial year, while $10,675,129 (2009: $84,486,856) was withdrawn, resulting in a balance of investors' funds of $242,756,199 (2009: $246,517,276) as at 30 June 2010. Whilst the Scheme is operating on a non-liquid basis, it is able to make periodic withdrawal offers to all investors.

The Responsible Entity had $40,032,773 (2009: $42,136,143) subordinated units as at 30 June 2010. The rights attached these units were subordinated to those of other investors.

The Responsible Entity continued to operate the Scheme as non-liquid for the entire year. This allows the Scheme to make periodic withdrawal offers to all investors in the pending withdrawal pool. During this period two pro-rata payments totalling $6,000,000 were made. Further pro-rata offers are planned subject to available liquidity and the Scheme's financiers. Hardship payments of $4,283,638 were also made to investors during the year.

Since the Scheme is non-liquid, withdrawal requests are only payable when sufficient cash funds become available.

The Scheme had total assets measured at $281,637,265 as at 30 June 2010 (2009: $318,030,942). The basis for accounting for measurement of the Scheme's assets is disclosed in Note 1 to the financial statements.

EQUITITRUST INCOME FUND
ARSN 089 079 854

DIRECTORS' REPORT

State of affairs

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

Likely developments

The Scheme will continue to pursue its policy of maintaining returns through selective investment decision-making. The Scheme will continue to advance funds to existing borrowers, only in circumstances to enhance underlying security property value. To improve liquidity the Scheme will continue, where required, to assist borrowers with the sales of property held as security and the refinancing 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

1. **Amended facility agreements**

   Subsequent to year-end Equititrust Ltd has received written confirmation from a financier approving the extension of an existing finance facility to Equititrust Income Fund of $35 million to 1 September 2011. This extension has been granted on the basis of monthly repayments of $3 million commencing 1 October 2010. The facility extension also includes various alterations in facility terms, conditions, covenants and undertakings.

2. **Enhanced AFSL license**

   The Responsible Entity holds an Australian Financial Services License (AFSL) which, among other things, allows it to act as Responsible Entity and Custodian of the Equititrust Income Fund. On 13 September 2010 the authorisations under the AFSL were increased at the request of the Company on approval of the Australian Securities and Investment Commission. This enhanced AFSL will assist the Company restructure the investment opportunities it offers to its investors. These enhancements allow, amongst other things, the Scheme to hold real property and financial assets and deal in certain derivatives.

3. **Change of directorship**

   Subsequent to balance date there has been changes in company directorship. John Haney resigned as a director of Equititrust on 3 September 2010. David Tucker was appointed a director of Equititrust Ltd on 3 September 2010. 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.

EQUITITRUST INCOME FUND
ARSN 089 079 854

DIRECTORS' REPORT

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 finance 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 reflects the above subordination and describes the manner of income distributions.

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

- expenses of the Scheme in an actual basis;
- benchmark distribution return to Members;
- payment of management fees of the Responsible Entity;
- distribution of remaining surplus to be paid to the Responsible Entity as a return on Responsible Entity's subordinated units.

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

	2010 $	2009 $
Management fees	4,460,638	5,494,519
Return on Responsible Entity's subordinated investment	10,531,734	9,913,410
Total fees and returns	14,992,372	15,407,929

The fees and returns paid in 2010 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% (exclusive of GST) of funds under management.

Associates of the Responsible Entity or its directors had 40,032,773 (2009: 40,032,773 units) subordinated investments units in the Scheme at 30 June 2010. Associates of the Responsible Entity or its directors had 5,799,932 investment units in the Scheme at 30 June 2010 (2009: 6,104,241 units) under 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 2010. The entity has paid in respect of the Scheme, premiums in respect of such insurance contracts for the year ending 30 June 2010. 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.

EQUITITRUST INCOME FUND
ARSN 089 079 854

DIRECTORS' REPORT

Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 6 and forms part of the directors' report for the year ended 30 June 2010.

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

Mark McIvor
Director

30 September 2010
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 2010 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

KPMG

P G Steer
Partner

Gold Coast

30 September 2010

EQUITITRUST INCOME FUND
ARSN 089 079 854

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2010

	Note	2010 $	2009 $
Revenue			
Interest income	5	36,378,860	43,664,257
Total revenue		36,378,860	43,664,257
Expenses			
Impairment losses – mortgage loans	11	(1,855,596)	(1,122,782)
Management fee	12	(4,460,638)	(5,494,519)
Total expenses		(6,316,234)	(6,617,301)
Profits from operating activities before finance costs		30,062,626	37,046,956
Finance costs			
Interest expense		(3,094,533)	(7,745,456)
Distribution expense to investors	8	(16,436,359)	(19,388,090)
Return on Responsible Entity's subordinated investment	12	(10,531,734)	(9,913,410)
Total finance costs		(30,062,626)	(37,046,956)
Net profit / Total comprehensive income		-	-

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

EQUITITRUST INCOME FUND
ARSN 089 079 854

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2010

	Note	2010 $	2009 $
Current assets			
Cash and cash equivalents	7a	19,800,774	12,638,829
Loans and receivables:			
Interest and other receivables		6,497,665	3,554,903
Mortgage loans	10	81,602,272	169,135,717
Total current assets		107,900,711	185,329,449
Non current assets			
Mortgage loans	10	173,736,554	132,701,493
Total non current assets		173,736,554	132,701,493
Total assets		281,637,265	318,030,942
Liabilities			
Financial liabilities measured at amortised cost:			
Accounts payable		1,417,578	4,183,722
Distributions payable		1,970,639	2,877,054
Interest bearing liabilities	9	35,000,000	64,000,000
Deferred income		492,750	452,790
Total liabilities (excluding net assets attributable to investors)		38,880,967	71,513,566
Net assets attributable to investors - liability	4	242,756,198	246,517,276
Net assets		100	100
Equity		100	100

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

EQUITITRUST INCOME FUND
ARSN 089 079 854

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2010

	Settlement sum		Total equity	
	2010	**2009**	**2010**	**2009**
	$	**$**	**$**	**$**
Opening balance	100	100	100	100
Net profit / Total comprehensive income	-	-	-	-
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
ARSN 089 079 854

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2010

	Note	2010 $	2009 $
Cash flows from operating activities			
Interest received – mortgage loans		32,705,888	40,387,072
Interest received – cash and cash equivalents		457,432	151,740
Distributions paid to investors		(17,342,774)	(19,857,639)
Interest paid		(3,225,131)	(7,746,510)
Return on Responsible Entity's subordinated investment		(13,244,244)	(8,028,787)
Management fee		(4,070,936)	(5,057,557)
Net cash flows (used in)/from operating activities	7b	(4,719,765)	(151,681)
Cash flows from investing activities			
Mortgage loans advanced		(44,427,143)	(130,955,040)
Mortgage loans repaid		89,069,931	222,952,472
Net cash (used in) investing activities		44,642,788	91,997,432
Cash flow from financing activities			
Proceeds from issue of redeemable units – investors		6,914,051	53,493,674
Payments on redemption of redeemable units – investors		(10,675,129)	(84,486,856)
Repayment of borrowings		(29,000,000)	(58,000,000)
Net cash from financing activities		(32,761,078)	(88,993,182)
Net increase in cash and cash equivalents		7,161,945	2,852,569
Cash and cash equivalents at 1 July		12,638,829	9,786,260
Cash and cash equivalents at 30 June	7a	19,800,774	12,638,829

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

EQUITITRUST INCOME FUND
ARSN 089 079 854

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 2010.

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 2010.

(b) Basis of measurement

The financial report is prepared on the historical cost basis including consideration of impairment losses.

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) impairment and Note 11 – impairment of mortgage loans

Note 3 (i) - going concern

Note 10(c)(iii) – liquidity risk

(e) Changes in accounting policies

Starting as of 1 July 2009, the Scheme has changed its accounting policies in the following areas:

- Presentation of financial statements

EQUITITRUST INCOME FUND
ARSN 089 079 854

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in the financial statements.

(a) Financial instruments

(i) Classification

Financial instruments comprise cash and cash equivalents, investments in units in unlisted schemes, loan receivables, 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 transaction 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 finances. 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.

EQUITITRUST INCOME FUND
ARSN 089 079 854

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 on 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 2010, but have not been applied in preparing these financial statements.

EQUITITRUST INCOME FUND
ARSN 089 079 854

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (cont)

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

- AASB 9 *Financial Instruments* includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 will become mandatory for the Scheme's 30 June 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2012 or earlier. The Scheme has not yet determined the potential effect of the standard.

- AASB 2009-5 Further amendments to Australian Accounting Standards arising from the Annual Improvements Process affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Scheme's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.

(i) Going Concern

In preparing the financial statements on a going concern basis, the Fund is planned to remain in operation as a non-liquid fund a the Directors highlight the following critical assumptions required to be managed:

- Compliance with the terms and conditions of the Scheme's revised finance loan facility arrangement or failing this, the repayment of the facility at $3million per month until such time as the loan is fully repaid.
- Maintenance of underlying property values supporting the current mortgage loan amounts.
- Ability of the Fund to continue income distributions to investors.
- Receipt of mortgage loan repayments from borrowers as scheduled.

The Scheme's finance loan facility of $35 million is repayable by 1 September 2011 with repayments of $3 million per month commencing 1 October 2010. The Scheme's projected cash flow indicates that this is achievable. It is the intention of the Responsible Manager to repay this debt earlier if net cash flow allows this to occur.

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.

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.

EQUITITRUST INCOME FUND
ARSN 089 079 854

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (cont)

(i) Going Concern (cont)

The Scheme is permitted to make periodic withdrawal offers to all investors in the pending withdrawal pool. The last pro-rata payment of $3,000,000 was made on 19 March 2010. Further pro-rata offers are planned, subject to available liquidity and the approval of the Fund's current lender. At 30 June 2010 the Responsible Entity held valid redemption requests totaling $54,198,878 (30 June 2009: $49,694,805) which will either be repaid or 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, is 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, the Fund may be unable to realise its assets and discharge its liabilities in the normal course of business.

4. Net assets attributable to investors - liability

	Opening Balance $	***Applications $***	***Transfers $***	***Redemptions $***	***Closing Balance $***
30 June 2010					
Ordinary investments	206,484,503	6,914,051	-	(10,675,129)	202,723,425
Subordinated investments	40,032,773	-	-	-	40,032,773
Total	246,517,276	6,914,051	-	(10,675,129)	242,756,198
30 June 2009					
Ordinary investments	277,510,458	13,193,674	(42,136,143)	(42,083,486)	206,484,503
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

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. The rights attached to subordinated investments are secondary to those of other investors. All units in the Scheme outstanding at 30 June 2010 have a term to maturity of 1 year or less. However, since the Scheme is currently non-liquid investors can choose to have maturing investments reinvested for a further term or transferred to a pending redemptions class of investment where the investment is held until such time as the Scheme has sufficient liquidity to pay all or part of the investment to the investor.

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 2010 was 7.95% (2009: 9.08%).

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 39.04% (2009: 27.66%) on the Responsible Entity's investment, which is reflective of the rate associated with the subordinated nature of units.

EQUITITRUST INCOME FUND
ARSN 089 079 854

NOTES TO THE FINANCIAL STATEMENTS

	2010	2009
	$	**$**
5. Interest Income		
Interest income arises from:		
Cash and cash equivalents	457,432	319,607
Investments in mortgages	35,921,428	43,344,650
	36,378,860	43,664,257
6. Auditors remuneration		
Audit fees paid by the Responsible Entity		
On behalf of the Scheme:		
Audit and review of the financial report	50,350	48,500
Other regulatory services	24,240	29,550
	74,590	78,050
Other services		
- Other assurance services	32,531	-
	107,121	78,050
7. (a) Cash and cash equivalents		
Current deposits with finances	19,800,774	12,638,829
	19,800,774	12,638,829

(b) Reconciliation of cash flows from operating activities

	2010	2009
Net profit	-	-
Impairment losses – mortgage loans	1,855,596	1,122,782
Changes in operating assets and liabilities:		
Interest receivable	(1,705,002)	1,383,760
Accounts payable	(2,891,161)	2,094,783
Accounts receivable	(1,112,743)	(880,950)
Deferred income	39,960	(3,402,506)
Distribution payable	(906,415)	(469,550)
Cash flows from operating activities	(4,719,765)	(151,681)

8. Distributions paid and payable

The distributions for the financial year comprise:

	2010	2009
Total distributions paid	14,465,721	16,511,036
Total distributions payable	1,970,638	2,877,054
	16,436,359	19,388,090

EQUITITRUST INCOME FUND
ARSN 089 079 854

NOTES TO THE FINANCIAL STATEMENTS

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.

	2010 $	2009 $
Borrowings secured - first registered mortgage debenture charge over the assets of the Scheme	-	29,000,000
Borrowings secured - second registered mortgage debenture charge over the assets of the Scheme	35,000,000	35,000,000
	35,000,000	64,000,000

The existing finance facility of $35,000,000 is a principal and interest reduction facility that is secured over the Scheme's mortgage loans and expires on 31 August 2012.

The facility of $35,000,000 was fully utilised at 30 June 2010 (2009:$64,000,000) with nil unutilised facilities available (2009: $249,135).

Interest is charged at a variable rate. At year end the weighted effective average interest rate on this facility was 9.03% per annum (2009: 6.63%).

Loans and borrowings are subject to maintaining certain loan covenants. One of the current covenants is to maintain a set debt to eligible asset ratio percentage of 25.0% (2009: 27.5%). If the debt to eligible asset ratio is exceeded and not rectified within 14 days the finances 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.

At 30 June 2010, the debt ratio was 20.59% (2009:26.35%).

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.

EQUITITRUST INCOME FUND
ARSN 089 079 854

NOTES TO THE FINANCIAL STATEMENTS

10. Financial instruments (cont)

a. Overview (cont)

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 Executive Committee reviews risk regularly and reports any significant issues to the Board. The Executive 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 Executive 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 Executive 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, receivables and mortgage loans

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

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.

EQUITITRUST INCOME FUND
ARSN 089 079 854

NOTES TO THE FINANCIAL STATEMENTS

10. Financial instruments (cont)

b. Estimation of fair values (cont)

Payables

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

Interest bearing borrowings

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

c. Financial risk management

(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.

(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.

EQUITITRUST INCOME FUND
ARSN 089 079 854

NOTES TO THE FINANCIAL STATEMENTS

10. Financial instruments (cont)

c. Financial risk management (cont)

(i) Market risk (cont)

(a) Interest rate risk (cont)

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	
	2010 %	2009 %	2010 $	2009 $	2010 $	2009 $	2010 $	2009 $
Financial assets								
Cash and cash equivalents	4.50%	2.50%	19,800,774	12,638,829	-	-	19,800,774	12,638,829
Mortgage loans	12.61%	12.12%	255,338,826	301,837,210	-	-	255,338,826	301,837,210
			275,139,600	314,476,039	-	-	275,139,600	314,476,039
Financial liabilities								
Interest bearing liabilities	9.03%	6.63%	35,000,000	64,000,000	-	-	35,000,000	64,000,000
Investor funds	7.79%	8.58%	-	-	202,723,426	206,484,503	202,723,426	206,484,503
Subordinated units	16.49%	16.24%	40,032,773	40,032,773	-	-	40,032,773	40,032,773
			75,032,773	104,032,773	202,723,426	206,484,503	277,756,199	310,517,276

EQUITITRUST INCOME FUND
ARSN 089 079 854

NOTES TO THE FINANCIAL STATEMENTS

10. Financial instruments (cont)

c. Financial risk management (cont)

(i) Market risk (cont)

(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 $2,577,705 (2009: $3,483,803); an increase in interest expense of $342,643 (2009: $1,168,081); an increase in distribution expense to investors of $1,033,153 (2009: $1,129,842); and an increase in return on the Responsible Entity's subordinated investment of $1,201,909 (2009: $1,185,879). 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.
- Our research, including physically viewing the property, real estate agent appraisals and in depth feasibility studies by specialist staff who have significant skills in property development and valuations.

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.

10. Financial instruments (cont)

c. Financial risk management (cont)

(i) Market risk (cont)

(b) Property value risk (cont)

The Scheme loan to valuation ratio ("LVR") restriction on mortgage loans is 80%. At 30 June 2010 the weighted average LVR of the Scheme was 65.9% (2009: 60.3%) 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 2010 an impairment loss of $1,855,596 (2009: $1,122,782) has been incurred. An increase in property prices by 10% would reduce these impairment losses to $65,238 (2009: $688,617).

A decrease of 10% in property values would result in no additional impairment losses (2009: $457,455).

(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:

	2010 **$**	**2009** **$**
Cash and cash equivalents	19,800,774	12,638,829
Receivables	6,497,665	3,554,903
Mortgage loans receivable	255,338,826	301,837,210
Total assets	281,637,265	318,030,942

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

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. In addition we conduct research, including physically viewing the property, real estate agent appraisals and in depth feasibility studies. This research is carried out by specialist staff who have significant skills in property development and valuations.

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.

EQUITITRUST INCOME FUND
ARSN 089 079 854

NOTES TO THE FINANCIAL STATEMENTS

10. Financial instruments (cont)

c. Financial risk management (cont)

(ii) Credit risk (cont)

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 four borrowers individually exceeding 5% of the total value of mortgage loans and which represent $178,346,360 (69.85%) of total loans existing at 30 June 2010. At 30 June 2009 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 $208,720,464 (69.15%) 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:

	2010		**2009**	
	$	**%**	**$**	**%**
Gold Coast	25,823,580	10	62,573,953	21
Brisbane/Sunshine Coast	76,893,643	30	62,875,990	21
Qld - Other	23,672,551	9	41,842,165	14
Sydney	25,039,581	10	31,988,570	10
NSW - Other	68,949,466	27	69,657,112	23
Other States	34,960,005	14	32,899,420	11
	255,338,826	100	301,837,210	100

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

	2010		**2009**	
	$	**%**	**$**	**%**
Static loans				
Residential	53,439,176	21	107,949,169	36
Commercial	92,825,792	36	84,043,496	28
Land	16,823,968	7	22,047,689	7
	163,088,936	64	214,040,354	71
Construction and development				
Residential	89,032,963	34	87,796,856	29
Commercial/Industrial	1,216,927	1	-	-
Land subdivision	2,000,000	1	-	-
	92,249,890	36	87,796,856	29
Total	255,338,826	100	301,837,210	100

EQUITITRUST INCOME FUND
ARSN 089 079 854

NOTES TO THE FINANCIAL STATEMENTS

10. Financial instruments (cont)

c. Financial risk management (cont)

(ii) Credit risk (cont)

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

	2010			2009		
	Number of loans	$	%	Number of loans	$	%
Less than 3 months	10	31,193,657	12	45	233,135,541	77
3 months to 12 months	37	224,145,169	88	12	66,713,115	22
Total: 1 year or less	**47**	**255,338,826**	**100**	**57**	**299,848,656**	**99**
Greater than 12 months	-	-	-	1	1,988,554	1
	47	**255,338,826**	**100**	**58**	**301,837,210**	**100**

Due to the current adverse conditions 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 $255,338,826 (2009: $299,848,656).

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

	2010			2009		
	Number of loans	$	%	Number of loans	$	%
Not past due	25	187,750,824	73	48	286,132,634	94
Past due 0-30 days	4	2,457,560	1	7	10,964,888	4
Past due 31-60 days	11	55,332,521	22	-	-	-
Past due 61 - 90 days	-	-	-	1	2,956,836	1
Past due 91- 120 days	1	506,204	1	-	-	-
Past due > 120 days	6	9,291,717	3	2	1,782,852	1
	47	255,338,826	100	58	301,837,210	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:

2010			2009		
Number of loans	$	%	Number of loans	$	%
31	183,023,971	72	26	73,235,423	24

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

EQUITITRUST INCOME FUND
ARSN 089 079 854

NOTES TO THE FINANCIAL STATEMENTS

10. Financial instruments (cont)

c. Financial risk management (cont)

(ii) Credit risk (cont)

Mortgagee in possession

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

2010:

	Secured property description	**Loan balance**	**LVR**
		$	**%**
(i)	Commercial & Residential sites	31,079,449	41
(ii)	Commercial & Rural residential sites	14,076,847	77
(iii)	Commercial Development	13,740,533	73
(iv)	Commercial & Residential sites	8,677,832	68
(v)	Residential site	3,673,223	69
Total		71,247,884	

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 is planned to enable full repayment of the loan assets.

(i) The various properties are being actively marketed. Directors anticipate the loan will be recovered in full.

(ii) The various properties in the loan portfolio are being actively marketed on an ongoing basis. Directors anticipate the loan will be recovered in full.

(iii) Rental income of approximately $1,000,000 per annum has been secured on this property. The Board have approved lodgement of a Development Application for a retail showroom. Approval is anticipated by mid 2011, at which time a strategy will be put in place to realise its value. Directors anticipate the loan will be recovered in full.

(iv) The property is currently on the market and it is anticipated to sell and settle prior to the end of 2011. Directors anticipate full recovery.

(v) The lots in the estate are being sold on an 'ongoing basis'. Directors anticipate the loan will be recovered in full.

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	

EQUITITRUST INCOME FUND
ARSN 089 079 854

NOTES TO THE FINANCIAL STATEMENTS

10. Financial instruments (cont)

c. Financial risk management (cont)

(ii) Credit risk (cont)

Mortgagee in possession (cont)

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

(ii) Six lots were 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 2010.

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

Pledge of loan book as collateral

The Scheme assets have been pledged to a financier as security for loan facility provided. The financier has registered a first and second mortgage debenture charge on the Scheme's assets. The charge is 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.

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.

EQUITITRUST INCOME FUND
ARSN 089 079 854

NOTES TO THE FINANCIAL STATEMENTS

10. Financial instruments (cont)

c. Financial risk management (cont)

(iii) Liquidity risk (cont)

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 the Risk Executive 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 Executive Committee 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 2010 is $40,032,773 (2009: $40,032,773). The Responsible Entity will have the discretion to reduce the minimum investment to $20,000,000 which will require the Scheme's financier's approval.

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

30 June 2010:	***Carrying amount $***	***Contractual cash flows $***	***6 mths or less $***	***6-12 mths $***	***1-2 years $***
Financial liabilities					
Secured finance loans	35,000,000	35,000,000	9,000,000	18,000,000	8,000,000
Investors' funds	242,756,199	242,756,199	166,088,849	76,667,350	-
30 June 2009:					
Financial liabilities					
Secured finance 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	-

10. Financial instruments (cont)

c. Financial risk management (cont)

(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 finances 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.

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 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 $1,855,596 (2009: $1,122,782). This impairment loss is in respect of the following individual loans and properties held as security:

- A valuation obtained for balance sheet purposes indicated that the value of the property was lower than the current book value. As a result the loan has been impaired by $781,524.
- The anticipated sales proceeds from the sale of the property is $3,500,000. This is lower than the book value and as a result the loan has been impaired by $382,211.
- It is anticipated that the sales of the property will result in a shortfall of $381,376. As a result the loan has been impaired by this amount.
- It is anticipated that the sale of the property will result in a shortfall of $161,064. As a result the loan has been impaired by this amount.
- The last security property is due to settle on 1 July 2010 with a shortfall of $69,721. As a result the loan has been impaired by $69,721
- This loan has been impaired by an amount of $63,402 which is the expected shortfall on settlements.
- Sales currently achieved are lower than the current book value. As a result the loan has been impaired by $16,299.

EQUITITRUST INCOME FUND
ARSN 089 079 854

NOTES TO THE FINANCIAL STATEMENTS

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:

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.

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*

EQUITITRUST INCOME FUND
ARSN 089 079 854

NOTES TO THE FINANCIAL STATEMENTS

11. Impairment of mortgage loans (cont)

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.

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% (2009: 80%). LVR is calculated as the loan approved amount as a percentage of the value of security property held.

As at 30 June 2010, the following significant mortgage loans with a carrying value totalling $9,875,902 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 $3,840,845 at year-end and the loan-to-value ratio of this mortgage at year-end was 68.9%. 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 $3,337,718 at year-end and the loan-to-value ratio of this mortgage at year-end was 67.7%. 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.

(iii) The Scheme held a mortgage loan with a carrying value of $1,545,411 at year-end and the loan-to-value ratio of this mortgage at year-end was 60%. 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.

(iv) The Scheme held a mortgage loan with a carrying value of 1,151,928 at year-end and the loan-to-value ratio of this mortgage at year-end was 70%. 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 2010.

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:

(v) 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.

EQUITITRUST INCOME FUND
ARSN 089 079 854

NOTES TO THE FINANCIAL STATEMENTS

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:

Name	Period of directorship
Mark McIvor	Appointed 1 July 1995
Thomas John Haney	Appointed 3 July 2000
David John Kennedy	Appointed 14 May 2010
Wayne McIvor	Resigned 14 May 2010

Responsible entity fees and other transactions

	2010	2009
	$	$
Management fees	4,460,638	5,494,519
Return on Responsible Entity's subordinated investment	10,531,734	9,913,410
	14,992,372	15,407,929

The Responsible Entity is entitled to a management fee of up to 1.5% (exclusive of GST) 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 to investors of their benchmark return and the payment of the management fee to the Responsible Entity.

Management fees of $389,703 (2009: $436,740) were outstanding as at 30 June 2010. Returns outstanding on the Responsible Entity's subordinated investment at 30 June 2010 were $1,022,883 (2009: $3,737,917).

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).

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

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

30 June 2010	Unit Holding	Interest held	Applications	Withdrawals	Distributions paid/payable
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%	528,824	$198,500	$871,852

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 redemptions on 31 October 2008.

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 $580,665 (2009: $750,865) in respect of guarantees issued by a finance to borrowers on behalf of the Scheme. These guarantees have been included in the borrowers approved loan facilities.

EQUITITRUST INCOME FUND
ARSN 089 079 854

NOTES TO THE FINANCIAL STATEMENTS

14. Events subsequent to reporting date

1. Amended facility agreements

Subsequent to year-end Equititrust Ltd has received written confirmation from a financier approving the extension of an existing finance facility to Equititrust Income Fund of $35 million to 1 September 2011. This extension has been granted on the basis of monthly repayments of $3 million commencing 1 October 2010. The facility extension also includes various alterations in facility terms, conditions, covenants and undertakings.

2. Enhanced AFSL license

The Responsible Entity holds an Australian Financial Services License (AFSL) which, among other things, allows it to act as Responsible Entity and Custodian of the Equititrust Income Fund. On 13 September 2010 the authorisations under that AFSL were increased at the request of the Company on approval of the Australian Securities and Investment Commission. This enhanced AFSL will assist the Company restructure the investment opportunities it offers to its investors. These enhancements allow, amongst other things, the Scheme to hold real property and financial assets and deal in certain derivatives.

3. Change of directorship

Subsequent to balance date there has been changes in company directorship. John Haney resigned as a director of Equititrust on 3 September 2010. David Tucker was appointed a director of Equititrust Ltd on 3 September 2010. 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.

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 7 to 33, 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 2010 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 2010

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

Report on the financial report

We have audited the accompanying financial report of Equititrust Income Fund (the Scheme), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity 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.

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, 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 Australia 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.* We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Equititrust Limited on 30 June 2010 would be unchanged if provided to the directors as at the date of this auditor's report.

Auditor's opinion

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 2010 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.

KPMG

KPMG

P G Steer
Partner

Gold Coast

30 September 2010

EQUITITRUST CAPITAL

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