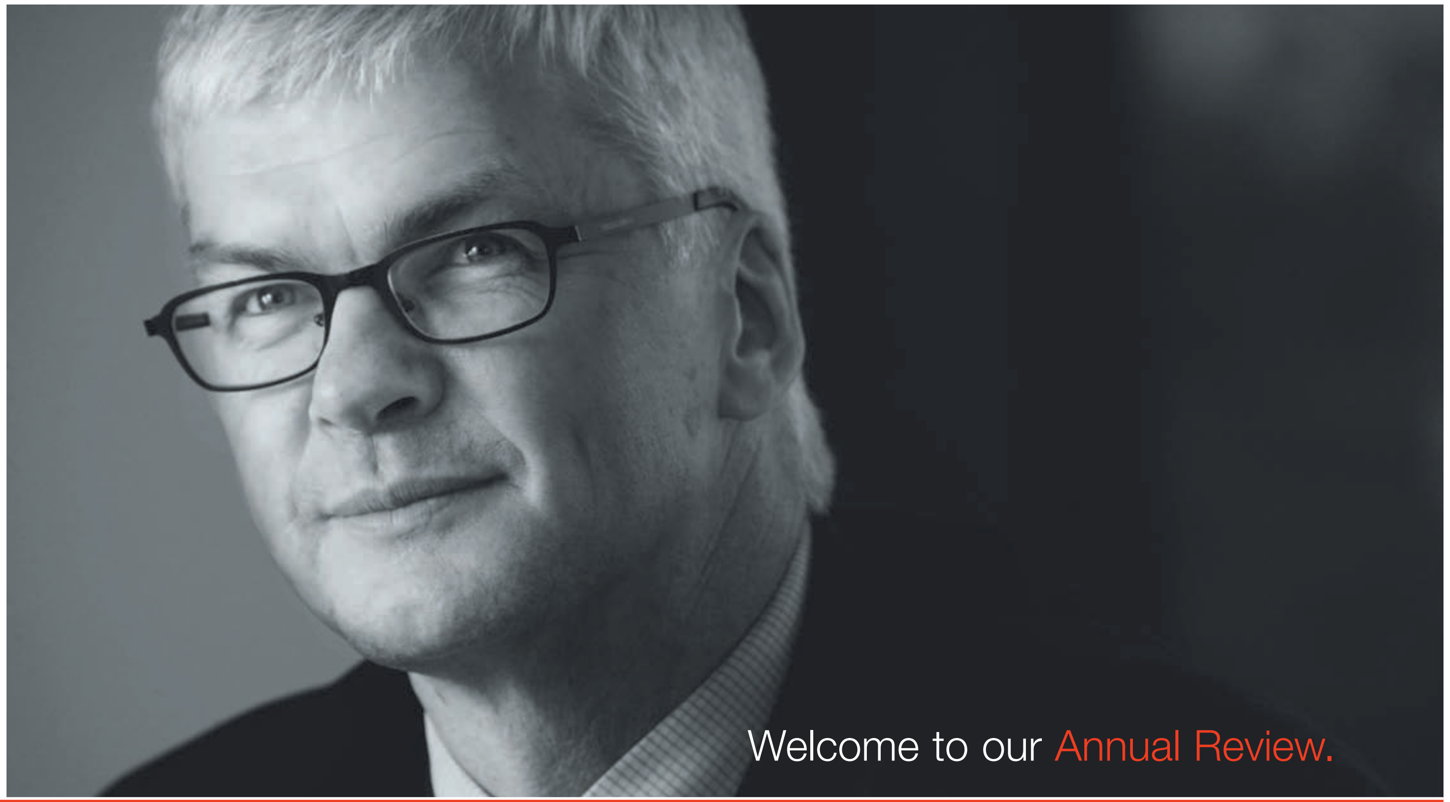
Annual Review
07/08

EQUITITRUST
Fixed Income & Finance

Mission Statement

**We are a responsibly aware company,
Always delivering on its word,
Nurturing its people,
And building enduring relationship.
We provide excellence
In investment security and return
And creative finance solutions,
Through strong property knowledge.**



HTW Valuers

A variety of quality companies contribute to Equititrust's successful fixed income investment formula. Because establishing security value is a cornerstone, we've enjoyed a long-term association with valuers Herron Todd White. They are the largest independent property valuation and advisory group in Australia, with 400 staff in 40 offices.
They cater to all property valuation and consulting requirements from individual residential properties to major development projects and government portfolios. For many years they've provided service with integrity, professionalism and independence to Equititrust.

Herron Todd White Directors, Todd Gillespie and Paul Murphy, with Equititrust's Tim James and Wayne McIvor.

CEO Comment Mark McIvor

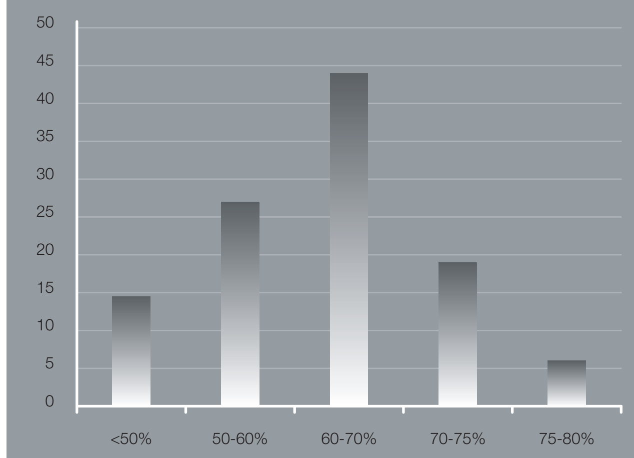
Yet another swift year, my 25th in business. It was a year of consolidation, of ensuring a tidy lending book and focussing on the fundamentals in preparation for our next phase of growth. Whilst always preferring to take a cautious approach to the property market, I've been surprised by its robustness, especially in our own Sunshine State. We've serviced strong demand across a range of borrowers, projects and locations. Our defining characteristics remain our margin of lending safety and managing borrower relationships and projects closely.

Higher than expected underlying inflation and strong domestic economic conditions have given rise to a more restrictive monetary policy. Whilst it is our desire to maximise investors' yield, we don't believe the most recent increase in the cash rate can prudently be passed on to new borrowers. In fact, we have applied considerable effort to cementing an institutional co-lending relationship to enable us to provide a cheaper rate offering to certain quality customers.

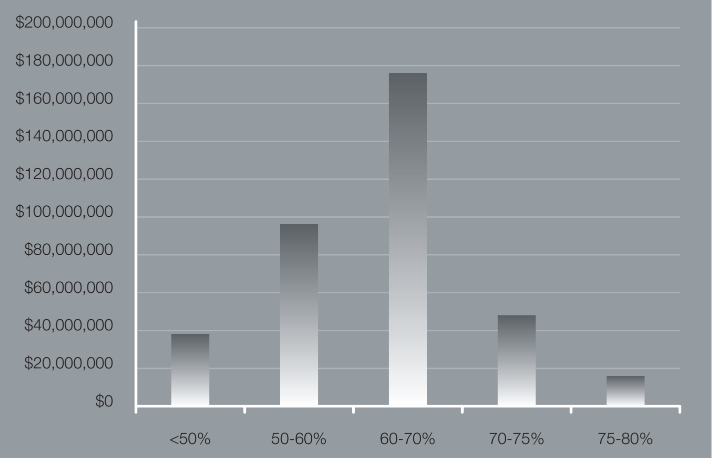
The U.S. sub-prime lending crisis and accompanying turmoil in credit and stock markets has attracted considerable attention. It is largely irrelevant to our day-to-day business and absolute proof of the importance of safety margin in lending.

A blight on this year's investment landscape was the disgraceful conduct of certain companies who purported to be legitimate fund managers. Frankly, it presents a good argument for the reintroduction of public stocks as punishment for those responsible. It does highlight what has always been, in my view, a regulatory deficiency. The statutory framework does not insist on an entity's appropriate capitalisation to be available as first loss to protect investors. Until it does, all the compliance regulations in the world won't equal a company putting its money where its mouth is. That is why we commit to consistent retained earnings growth, a constant Capital Warranty and continual refining of our lending skill set.

Despite suffering some sleep deprivation, compliments of our new daughter Harriet, I remain utterly committed to the integrity of your fixed-income investment. Please enjoy our Annual Review.



Number of Loans by Loan-to-Value Ratio - June 2007



Value of Loans by Loan-to-Value Ratio - June 2007

Investment Managment Report

Ross Janetzki Director Investments

The 2007 financial year saw a gross inflow of investor funds totalling $95m. This was matched by outflows with strong competition from a robust equities and property market. The collapse of a number of fund managers (I use that term loosely) has no doubt also created uncertainty for some. I always appreciate the opportunity to discuss our product in detail and to contrast Equititrust with ignominious others. Please never hesitate to call.

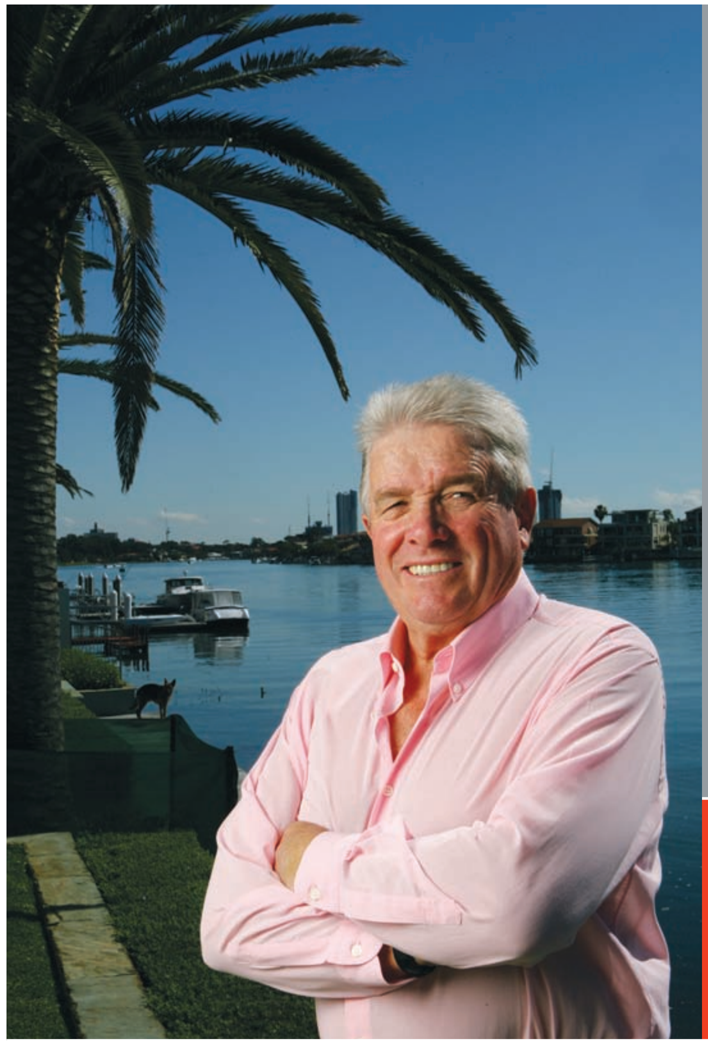
Our new Income Fund Product Disclosure Statement (PDS) became effective on 27th July 2007. Noteworthy features are the acceleration of our Capital Warranty to $10 million and the creation of our 6-month investment term. The latter will suit investors seeking a higher return than our Access product but who can't commit to a 12-month term. It should certainly suit those waiting for calm in the current choppy conditions of the share market.

In the preparation of the new PDS, our financial management team laboured intensively to satisfy the rigours of ASIC Policy Statement 170. This Policy Statement governs the use of the prospective financial information (including forecasts and projections). In doing so, we are able to publish our rates as fixed, as opposed to a 'target' or 'forecast' return.

Changes to superannuation regulations resulted in many clients restructuring investments in the lead-up to June 30. Whilst we don't provide financial advice, we are pleased to assist clients with transferring their investments to new holdings in the names of self-managed superannuation funds. This service is free so if you ever wish to effect such a transfer – be it to your self-managed super fund, company, investment trust vehicle, or family member – feel free to notify us.

We fielded a number of investor calls during the peak of the frenzied market response to the U.S. sub-prime lending crisis. Callers were inquiring if this issue had an effect on us. As we have no exposure to equities, derivatives or offshore lending, it has absolutely no direct bearing on us. It's also worth noting that the 9/11 terrorist attacks, the 2000 bursting of the dot-com bubble, the '97 Asian currency crisis, and the early '90s *'recession we had to have'* had no material effect either.

My team welcomes a new Investment Manager, Kerrie Saw. Kerrie has degree qualifications in Business Management and Marketing and has returned to the Gold Coast after spending many years working in London and Sydney. Kerrie will be focusing on servicing investor needs and will also coordinate our marketing programs. Feel free to phone her at any time.



Our investors come from a variety of backgrounds. It's always gratifying to have their endorsement, especially when they have a reputation as a successful and tough businessman. Tony Bawden was a founder of Villa World Limited, a prominent publicly listed property company. During his tenure he developed over 18,000 residential properties.

An Interview with Tony Bawden

How did you get into the property business?
Some 47 years ago I worked for an English company who financed real estate developers. Over a number of years, I became familiar with the requirements of a successful real estate development project, which led initially to my involvement in joint ventures and subsequently in projects on my own account.

To what would you attribute the early success of Villa World?
Villa World was founded on the concept of purchasing land and materials in volume, and then including those very competitive ingredients into the pricing of the product to the end buyer. This hastened the sales process, which in turn reduced interest holding charges on the project – a win-win for the developer and purchaser.

What do you think is the key to successful property development?
A successful property development starts with the acquisition of the site. If not negotiated satisfactorily the project will struggle throughout its lifetime, maybe as long as four or five years.

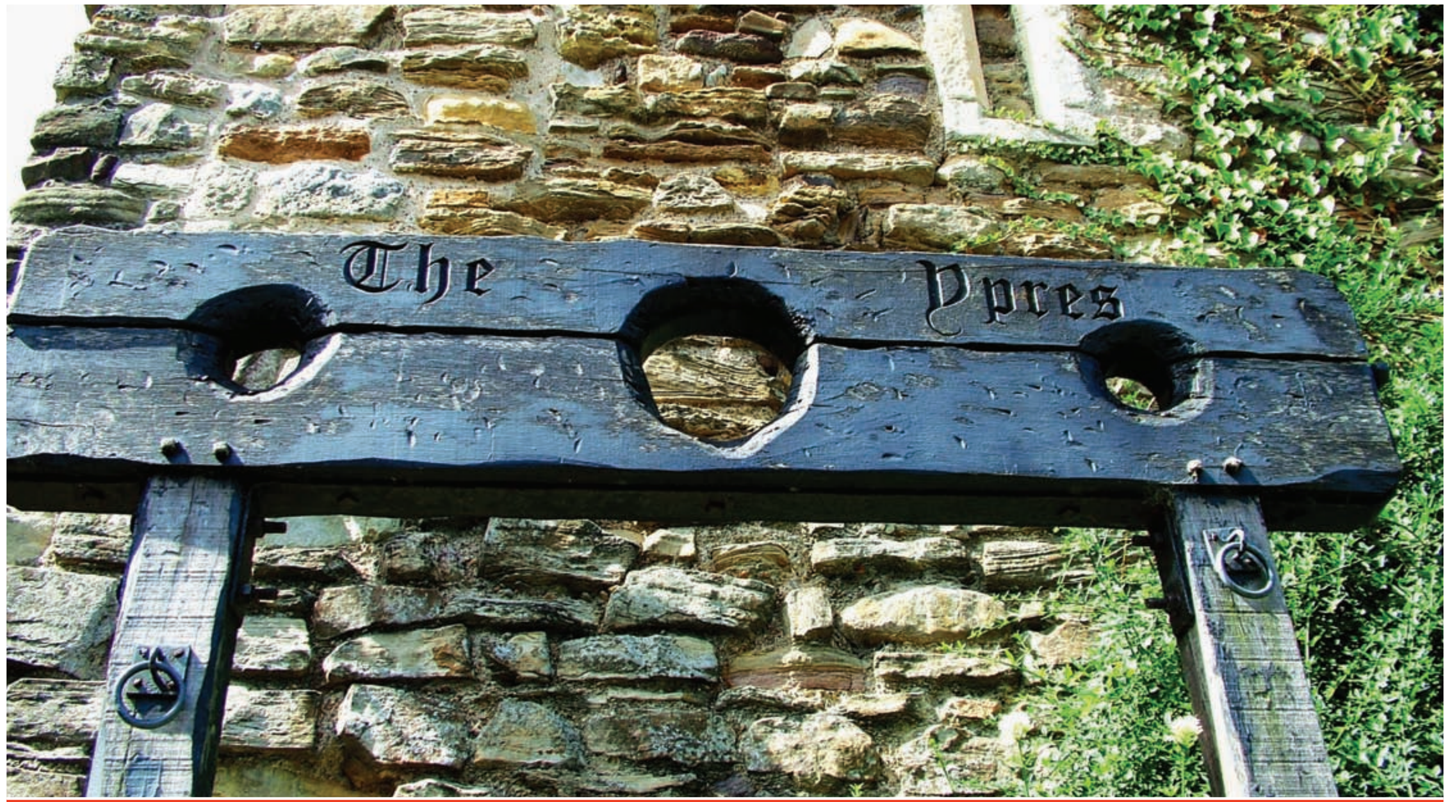
The ongoing development process must be competitive in cost and time, and pricing of the finished product must be reflective of market conditions. Real estate development projects can fail as result of the product not being priced to sell. As a result the interest cost on borrowed funds erodes budgeted profit and can eventually result in a loss of equity. Remember it is not always location, location; timing is also imperative.

With the benefit of hindsight, what would you have done differently from an investment perspective?
In hindsight, but not practical for obvious reasons, it would have been very rewarding to have developed all those residential properties *(in excess of 18,000)* and to have held them over the years. Many of these residences were sold from $40,000 – $160,000 over the last 21 years and the buyers of those properties have experienced very substantial capital appreciation.

How have you enjoyed the transition to your semi-retirement?
I am happy to have now effectively retired from the industry. I do not miss the ongoing, ever-so-slow approval process, most of which does not result in a better development but which costs the developer substantial holding charges that must be passed onto the consumer.

How would you divide your time between business and recreation?
I am fortunate to have an ongoing involvement in business as a result of a small finance company, which my son and I operate together. With some golf, travel and our wonderful three grandchildren, my wife and I enjoy our semi-retirement lifestyle immensely.

What do you think of Equititrust?
I have been an investor and co-lender with Equititrust. I have formed the view that the team at Equititrust has a very clear picture of how a loan should be structured, as well as who, where, when and what to finance. Their experience over many years has enabled Mark and his team to build a very successful Gold Coast based finance business. The punctual payment of income and withdrawals over these years has obviously built up a reputation for performance and integrity, which is admired throughout the community.



Public stocks, circa 1800. A fitting punishment for some?

On Risk and Fallen Fund Managers

Security of capital and return are keynotes of any fixed income investment. Notable investment company failures (Westpoint, Fincorp, ACR and Bridgecorp) promoted high-risk mezzanine or equity style investment 'dressed up' as fixed income. Three of the companies were property developers and Bridgecorp (a N.Z. company recently established in Aust.) was a mezzanine finance provider with dubious history.

Sadly, the investors involved may not have properly understood the nature and risk of their investment. *But how do you assess the underlying risk of the entity providing your fixed income?* Financial industry analysts almost universally use the so-called CAMEL approach to analysis. CAMEL is an acronym which stands for the following 5 important attributes.

1. CAPITAL Capital adequacy is the retained earnings and equity reserves that provide a cushion against loss.
2. ASSET QUALITY This refers to the quality of loans and the margin of safety in the loan book.
3. MANAGEMENT Refers to the skill of those managing.
4. EARNINGS A company with good earnings capacity can solve problems when they arise.
5. LIQUIDITY The ability to meet the current or an acute need for funds.

At Equititrust we've worked consistently over many years to cultivate these attributes and we have a philosophy and long history of investor protection that we jealously guard.

A final quarter surge in borrower demand saw us unexpectedly eclipse last year's lending volume. With modest growth our lending totalled $366m. The split between development and commercial loans hovers at approximately 60% / 40% respectively. Geographically the lending book remains strongly Queensland centric at 74%, although interstate volumes are provisioned to increase.

We've experienced continued strong demand in the industrial and commercial property sectors. Both land and finished product remain in high demand, although we are ever watchful of oversupply. Queenslands regional townships also continue to display a voracious appetite for residential product. The mining boom remains a significant impetus with a host of communities enjoying the benefits provided by that growth.

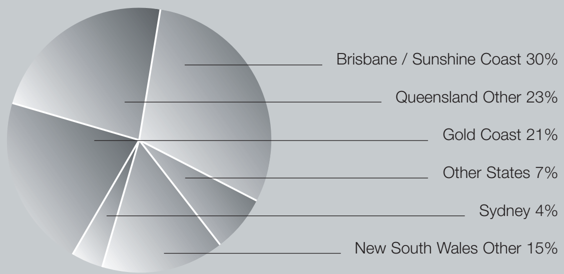
Lending Management **Report**

Tim James Director Lending.

Top Highbury Park Estate, Redbank Plains, Brisbane ... 100% sold.
Above Riverfront luxury homes, Sorrento Gold Coast ... fully sold.

We've seen the initiation and successful completion of a variety of projects throughout the year traversing the full spectrum of market demand. They ranged from up-market waterfront homes to a community of low-cost housing; corporate headquarters to a substantial CBD commercial building of over 13,000m^2; a major storage facility complex to a 50-hectare industrial land estate. All projects displayed the key indicia of competent customer and good safety margin.

The year saw us further advance our major bank alliances, including a new relationship with a subsidiary of one of the world's largest financial institutions. The contribution to liquidity and lending capacity afforded by these relationships will be pivotal in a busy '08 financial year of $400m forecast lending.



Loan Geographies at 30 June 2007

Commercial offices, Mackay. Completed June 2007, since re-financed by ANZ.

Property Market Overview Looking Ahead

Elements of the broad national economy over the past financial year have been:

- Widely differing performance in various property markets
- The average Australian house increased 9.2% in value
- Residential stock deficiencies driving up rents
- Record low unemployment
- Inflationary pressure
- Surging mining investment
- High national immigration
- Buoyant Australian Dollar.

As to the residential development outlook, Commonwealth (Bank) Research had this to say: *"We remain very positive on the 2008 housing construction outlook. Dwelling approvals are running near 152,000, well below CBA estimates of underlying housing demand of 177,000. The strong underlying fundamentals of firm jobs, population and income growth, and low vacancy rates are expected to drive the gradual increase in national dwelling construction into 2008."*

ANZ's Head of Australian Economics, Tony Pearson, is equally positive:

- Dwelling investment will continue to rebound.
- Household consumption will remain strong, supported by solid employment and wages growth.
- We forecast GDP growth will accelerate to around 4% in 2007, from 2.7% in 2006, and will broadly maintain this stronger pace of growth through 2008 and 2009."

What does this spell for residential property prices?
BIS Shrapnel predicted growth rates for the following regions over the next three years:

- Gold Coast - 16%
- Sunshine Coast - 15%
- Brisbane - 22%
- Sydney - 8%
- Melbourne - 18%
- Townsville - 10%
- Cairns - 11%

They also predict that residential vacancies will tighten to below 2% in many capital cities – Sydney vacancies are expected to dip below 1%. Correspondingly, rents are poised to rise significantly over the next three years.

Few localities in Australia have experienced the property price growth of those close to mining-related activity. The Bowen Basin, responsible for about 97% of Queensland's coal exports, is a case in point. The thirty-four companies operating there extract over 100 million tonnes of coal annually. Numerous other projects are also slated for development, including for gas and ammonium nitrate. The construction of gas and water pipelines, and a substantial Queensland Rail upgrade, will provide further activity. But how is this affecting real estate prices in nearby areas?

How is the mineral boom affecting property values?

According to the Real Estate Institute of Queensland, in the 12 months to March 2007:

- Mackay continued to perform well with median price growth of 14.8% to $370,000.
- Central and North Queensland continue to fare well with Rockhampton properties recording an impressive 32.5% to $250,000.
- Gladstone's median house price increased 22.7% to $276,000.
- Mt Isa recorded a staggering 40% rise.
- Emerald's median increased 11.5% to $340,000.
- Dalby prices grew 27.9%.
- Bowen's median house price soared 34.9%.

But Moranbah, about two hours' drive from Mackay in the northern centre of the Bowen Basin, surely takes the cake. According to PRD Nationwide Research, in 2001 the average house in Moranbah was selling for $18,000. Today the average is over $300,000. That's an average return of about 80% per annum over the past five years. It's a double-whammy for the renters who could have bought there but didn't. Not only have they forgone enormous capital gains but they're also commonly paying $650 weekly rent for a three bedroom house.

Dan Morton, Executive Director of Morvale Group, is an entrepreneur by spirit. Noting scarcity of diesel mechanics in Mackay, he started a labour hire business. Success followed as the business expanded. His commercial instinct also drew him to property. The first development was a 60-lot industrial project, which sold prior to completion. His second and third projects, comprising 160 residential lots, were also sold out prior to completion. Perhaps not surprisingly, Dan races sprint cars for relaxation.

An Interview with Dan Morton

Dan, how did you first become involved in property development?
I acquired a child-care centre site and a beachfront development site before moving into property development. I saw Mackay's need for affordable housing to support the industry boom. My businesses snowballed from there.

Labour hire and property development are an unusual combination. How do your businesses compliment each other?
Wherever resources are booming so is property, so the two seem to work together naturally.

Why do you favour North Queensland for property development?
Mackay is my home town. I've watched it grow over the years as a result of the mining boom; I also feel I have a good understanding of the mining industry and what it will continue to mean to our region.

Which do you imagine are Australia's next property hot spots and why?
Wherever mining and resources are booming, so is development. However, we still have a long way to go in Queensland before we meet the requirements of the resources market. South Australia also deserves consideration.

What is your secret to success?
Failure is not an option. That is my philosophy in everything I do. I encourage all my staff to take the same approach.

What's on the drawing board for you over the next 12 months?
Residential developments in Mackay, Whitsundays and South Australia, and capitalising on our industrial land holdings in Mackay.

Most would find motor racing stressful, but you do it for relaxation.
I am certainly not thinking about anything else once I get on that track! Racing sprint cars requires total focus and takes me away from the day-to-day. It helps me separate myself from my business *(for a few hours anyway)*.

Finally, why Equititrust?
We have developed an excellent working relationship with Equititrust over the last few years. They understand our business. They understand the cyclical nature of developing and they provide a product that gives us the flexibility we need.

Getting to know us ...

Our lending team consists of people with strong property skills; they have the experience to critically analyse valuations and most importantly to establish value. A perfect example of this is Equititrust Director, Wayne McIvor *(our CEO's brother)*, who joined the company in 1993.

Wayne McIvor

"You could say I was there from the beginning. Mark's law firm had been lending for quite some time. Business had increased and he wanted someone with a property background to assist with understanding the security value."

Prior to joining Equititrust, Wayne worked for many years in hotel management and subsequently in real estate. This experience proved invaluable.

"It's crucial to second-guess valuations. A property can look good on paper but sniffing out its rock-bottom value is the key. Whatever people might say about them, the good agents know property value. They usually stick to a specific area so their knowledge is intimate. We identify agents who are closely in touch with the market and we elicit their knowledge. I'm proud to say it's contributed strongly to our record."

As a director of Equititrust, Wayne naturally has broader managerial input.

"I'm passionate about the company; its direction; its staffing. But what probably satisfies me most is my role on the Credit Committee, being a gatekeeper so to speak. Not only must we safeguard our investors, it's also paramount in terms of the company's capital."

Beyond the realm of work, Wayne is an avid cyclist.

"The sport of my youth was surfing and that seemed more fun than cycling. In 2001 I had to get fit for a surf trip to Fiji and chose the bike as a good adjunct to surfing. I became the fittest I'd been in a long while. The following year, I joined a charity ride from Sydney to the Gold Coast. Next year I'll be doing my seventh Sydney to Surfers ride for the Youth Off The Streets Charity."

Not bad at 53!

Further proof of the stability of Equititrust's key personnel is Information Systems Manager, Simon Smith. Like most of his colleagues, he began with the company last century. And his grey matter rivals most of them! After all, how many people can conquer a degree in aeronautical engineering?

Simon Smith

"I didn't exactly breeze through it," he says, seemingly unaware of his pun. "Aerodynamics and finite element analysis of aircraft structures aren't exactly rocket science ..." He breaks off, looking thoughtful. "No actually they are."

But a career in this sphere held little appeal for him. "It was pure maths. I couldn't play with aeroplanes. It was all theory! I wanted the real world."

In the years that ensued, Simon worked in manufacturing management and IT *(Information Technology)* positions and migrated from England to Australia.

What's on the drawing board for the coming year?

"It's going to be an exciting time, we've been evaluating new finance software from several vendors and believe we have identified a suitable replacement for our current system. The extra functionality in the new software should really help to streamline our business processes.

So what does this now naturalised Australian do when he's not ensuring the smoothness of Equititrust's computer systems?

"Well, I have three children. I've also just resumed study *(a Masters degree in Accounting)* so that puts paid to my former recreational pursuits." *Which were?* "Reading, tennis, chess and of course golf."

When asked if there was vocational life after Equititrust, he scratches a lengthy sideburn.

"It's hard to imagine really. I adore my job; designing programs to best assist the lending and investment divisions. I enjoy the technical responsibility. And I doubt I could choose a better bunch to work with."

The 2007 financial year produced a 33% increase in after-tax profit to a very sound $12.2 million. Total funds under management (FUM) remained relatively static with strong competition from high yielding equity markets and a strong property market.

Average FUM increased by 13.8% making a strong contribution to increased profitability. Retained earnings grew a substantial 36.3% to $44m. Total equity now represents 10.1% of total assets. A bank is arbitrarily deemed to have achieved satisfactory capital strength at an 8% capital adequacy ratio so we're very proud of the long-term discipline demonstrated in our retained earnings history. The outlook for the 2008 financial year is for strong growth in revenue and credit capacity.

Sid Super Chief Financial Controller

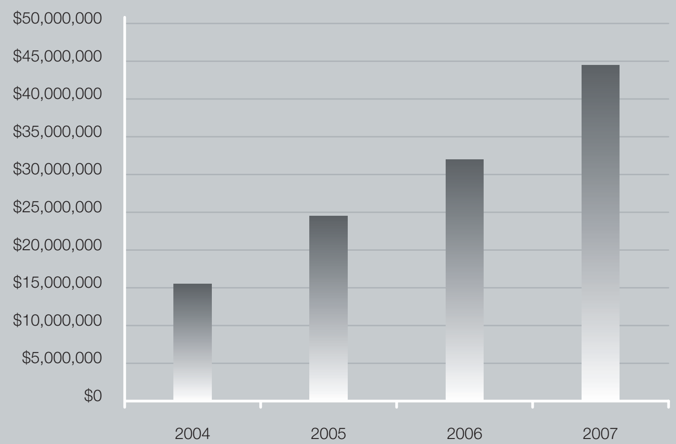
Financial Management Report

Borrower non-performance remains well within acceptable levels. Loan default (arrears> 90days) as at 30th June 07 was 2.39%. The annualised monthly average was 3.06% with the 3-year average at 4.3%. We update this position quarterly on our website for your information *(www.equititrust.com.au)*. Stringent loan impairment testing is conducted at the end of each financial year. In the event that a loan asset has deteriorated in value, we write it down to its proper value. This allows a fresh start for each financial new year.

Compliance and risk management remain a focus.We appointed an external compliance specialist to conduct a formal review, which has resulted in additional enhancements to our system. We have also focused on fully integrating our lending compliance information into our database. This enables compliance audit at the push of a button. We have now identified leading software in the field of loan management. We will shortly be conducting a comprehensive GAP analysis in conjunction with the provider to ensure it will meet expectations. If so, implementation will be finalised by January 2008.

To encourage our personnel to enhance appropriate skills we now provide opportunity for further education via a company-funded program. I'm pleased to report that several of my team members are enrolled in university studies under this initiative.

It has been a pleasure to be of service to you for yet another year. My sincere thanks to my great team and colleagues.



Equititrust Limited Retained Earnings

Balance Sheet as at 30 June 2007

	Consolidated 2007 $	2006 $	The Company 2007 $	2006 $
Current assets				
Cash and cash equivalents	26,198,840	8,972,582	2,626,324	120,323
Trade and other receivables	5,384,080	4,918,042	3,787,869	6,786,142
Mortgage loans	399,503,619	262,848,717	4,237,174	8,270,218
Investments	1,200,000	27,767,167	38,275,297	34,865,933
Total current assets	432,286,539	304,506,508	48,926,664	50,042,616
Non-current assets				
Trade and other receivables	5,080,944	5,154,494	5,080,944	5,154,494
Property, plant and equipment	88,521	107,849	88,521	107,849
Other investments	126,649	-	-	-
Mortgage loans	39,384,007	151,553,219	-	-
Deferred tax assets	541,983	557,295	1,255,254	1,270,565
Total non-current assets	45,222,104	157,372,857	6,424,719	6,532,908
Total assets	477,508,643	461,879,365	55,351,383	56,575,524
Current Liabilities				
Bank overdraft	-	3,270,030	-	3,270,030
Trade and other payables	7,945,393	4,919,489	3,871,583	3,121,885
Interest bearing loans and borrowings	105,000,000	95,391,900	-	12,060,000
Securitised unitholders funds	313,670,072	320,887,607	-	-
Loan from related party	-	-	375,701	502,350
Financial Guarantee	-	-	2,377,569	2,377,569
Income tax payable	1,959,595	901,521	1,959,595	901,521
Employee benefits	465,360	359,364	465,360	359,364
Total current liabilities	429,040,420	425,729,911	9,049,808	22,592,719
Non-current liabilities				
Employee benefits	183,335	70,475	183,335	70,475
Total non-current liabilities	183,335	70,475	183,335	70,475
Total liabilities	429,223,755	425,800,386	9,233,143	22,663,194
Net assets	48,284,888	36,078,979	46,118,240	33,912,330
Equity				
Issued capital	4,097,385	4,097,385	4,097,385	4,097,385
Retained earnings	44,187,503	31,981,594	42,020,855	29,814,945
Total equity	48,284,888	36,078,979	46,118,240	33,912,330

The balance sheets are to be read in conjunction with the notes to the financial statements.

Abridged Income Statements for the year ended 30 June 2007

	Consolidated 2007 $	2006 $	The Company 2007 $	2006 $
Total revenue	67,730,091	57,007,466	33,433,151	28,361,506
Profit before tax	17,437,032	12,971,060	17,437,032	12,341,704
Income tax expense	(5,231,122)	(3,825,480)	(5,231,122)	(3,636,673)
Net profit attributable to equity holders of the parent entity	12,205,910	9,145,580	12,205,910	8,705,031

The statements of recognised income and expense are to be read in conjunction with the notes to the financial statements.

Fixed Income & Finance

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