

Building Relationship

EQUITiTRUST

Income & Finance

Responsible Entity's Report

Equititrust
Income Fund

ARSN 089 079 854

EQUITITRUST INCOME FUND
ARSN 089 079 854

Annual Financial Report

30 June 2008

EQUITITRUST INCOME FUND
ARSN 089 079 854

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EQUITITRUST INCOME FUND
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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 2008 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	52	Mark McIvor is the founder of Equititrust Limited. He has been a lawyer for over 25 years, specialising in mortgage investment and property lending.
Thomas John Haney Non-executive director Appointed 3 July 2000	51	Thomas John Haney has over 27 years experience in law and mortgage finance. He is a solicitor of the Supreme Court of Queensland and New South Wales
Wayne McIvor Mortgage Manager Appointed 10 August 2000	54	Wayne McIvor has a property and management background and has been pivotal in Equititrust's lending team for over 13 years.

Principal activities

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

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

The Scheme did not have any employees during the year.

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

Review and results of operations

At 30 June 2008 the Scheme had total assets of \$408,611,469 (2007: \$388,779,535). 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 2008. There have been no significant changes in the nature of the Scheme's operation during the year.

**EQUITITRUST INCOME FUND
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DIRECTORS' REPORT

Distributions to investors

The rate of distribution paid to each investor is set at the time of entering into the mortgage investment. The distribution rates range from 7.00% to 9.75%.

Distributions paid or payable by the Scheme since the end of the previous financial year were \$24,543,357 (2007: \$23,933,342).

Investors Funds

The Scheme received \$200,029,417 of investor funds during the financial year (2007: \$95,740,065), while \$195,825,363 was withdrawn or transferred to a related Scheme (2007: \$107,425,856), resulting in a balance of investors' funds of \$277,510,458 as at 30 June 2008 (2007: \$273,306,404).

The Scheme had total assets valued at \$408,611,469 as at 30 June 2008 (2007: \$388,779,535). The basis for accounting for valuation of the Scheme's assets is disclosed in Note 1 to the financial statements.

State of affairs

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

During the financial year the Scheme increased its borrowings from \$105,000,000 to \$122,000,000 which are secured over the assets of the Scheme.

Likely developments

The Scheme will continue to pursue its policy of maintaining returns through selective investment decision-making and will also continue to pursue credit lines with banks to assist liquidity.

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

Further information about likely developments in the operations of the Scheme and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Scheme.

Environmental Regulation

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

Events subsequent to balance date

Subsequent to year-end, the Manager has agreed to maintain a minimum investment in the Scheme of \$40,000,000, subordinated to the rights attached of other investors. The Manager will have the discretion to reduce the minimum investment to \$20,000,000 following the intended repayment of the existing facility of \$90,000,000 on the 31 October 2009. This will afford further protection to the other investors and assist the Scheme's liquidity.

**EQUITITRUST INCOME FUND
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DIRECTORS' REPORT

Events subsequent to balance date (cont)

Subsequent to year-end, an indicative summary of terms and conditions has been received outlining an offer to the extend the existing bank facility for \$90,000,000 to 31 October 2009 on the basis of quarterly repayments of \$20,000,000 commencing 31 December 2008 with a final repayment of \$10,000,000 by 31 October 2009. As part of the terms of the facility, the Manager has agreed to maintain a minimum investment in the Scheme of \$40,000,000 (as described above) and has subordinated the rights attached to this investment to the bank and other investors. In addition, the bank will appoint a consultant to review and report on the reasonableness of the Scheme's twelve month budget by 31 December 2008. An agreement has also been entered into with a further financier to extend an existing facility of \$35,000,000 to 31 October 2009.

Subsequent to year end, as a result of the ongoing global credit and liquidity crisis, its impact on the Australian property markets and the recent announcement by the Australian Federal Government to guarantee authorised deposit-taking institutions (ADIs) incorporated in Australia, the Scheme has experienced an increase in unit holder redemption requests, and certain delays in the repayment of mortgage loans from borrowers. As a consequence of these events, the responsible entity advised investors in the Scheme on 30 October 2008 that it will defer redemptions for 90 days to enable liquidity of the Scheme to be managed. The responsible entity has also advised that investors will continue to receive income distributions as they fall due.

Interests of the Responsible Entity

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

	2008	2007
	\$	\$
Interest warranty fees	21,072,761	19,595,565

The interest warranty fees are represented by the surplus of receipts from mortgage lending after payment of the Scheme investors' warranted return and any associated costs and outlays of the Scheme.

Associates of the Responsible Entity or its directors had \$42,136,143 of investments in the Scheme at 30 June 2008 on normal terms and conditions. At 30 June 2007 associates of the Responsible Entity or its directors had no investments in the Scheme.

Indemnities and insurance premiums for Officers or Auditors

Indemnification

Under the Scheme 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 2008. The entity has paid in respect of the Scheme, premiums in respect of such insurance contracts for the year ending 30 June 2008. 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.

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DIRECTORS' REPORT

Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 4 and forms part of the directors' report for the year ended 30 June 2008.

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

A handwritten signature in black ink, appearing to read 'Mark McIvor', written in a cursive style.

Mark McIvor
Director

31 October 2008

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 2008 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.

A handwritten signature in black ink, appearing to read 'P G Steer'.

KPMG

A handwritten signature in black ink, appearing to read 'P G Steer'.

P G Steer
Partner

Gold Coast

31 October 2008

**EQUITITRUST INCOME FUND
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INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2008

	Note	2008	2007
		\$	\$
Revenue			
Interest income	5	55,623,726	48,666,220
Distributions received		<u>-</u>	<u>1,469,198</u>
Net investment income		55,623,726	50,135,418
Expenses			
Interest warranty fee	12	<u>(21,072,761)</u>	<u>(19,595,565)</u>
Profits from operating activities before finance costs		<u>34,550,965</u>	<u>30,539,853</u>
Finance costs			
Interest expense		(10,007,608)	(6,606,511)
Distribution expense to investors	8	<u>(24,543,357)</u>	<u>(23,933,342)</u>
Total finance costs		<u>(34,550,965)</u>	<u>(30,539,853)</u>
Net profit		<u>-</u>	<u>-</u>

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

**EQUITITRUST INCOME FUND
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**BALANCE SHEET
AS AT 30 JUNE 2008**

	Note	2008 \$	2007 \$
Assets			
Cash and cash equivalents	7a	9,786,260	19,829,130
Loans and receivables:			
Interest and other receivables		3,867,784	2,740,452
Fixed interest securities – mortgage loans	10	394,957,425	366,209,953
Total assets		<u>408,611,469</u>	<u>388,779,535</u>
Liabilities			
Financial liabilities measured at amortised cost:			
Accounts payable		2,088,940	1,876,535
Distributions payable		3,346,603	3,791,032
Interest bearing liabilities	9	122,000,000	105,000,000
Deferred income		3,665,368	4,805,464
Total liabilities (excluding net assets attributable to investors)		<u>131,100,911</u>	<u>115,473,031</u>
Net assets attributable to investors - liability	4	<u>277,510,458</u>	<u>273,306,404</u>
Net assets		100	100
Equity		<u>100</u>	<u>100</u>

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

**EQUITITRUST INCOME FUND
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**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2008**

	Settlement sum		Total equity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Opening balance	100	100	100	100
Net profit/(loss) for the period	-	-	-	-
Closing balance	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

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

**EQUITITRUST INCOME FUND
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STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2008

	Note	2008 \$	2007 \$
Cash flows from operating activities			
Interest received – mortgage loans		53,461,419	51,885,619
Interest received – cash and cash equivalents		434,540	368,845
Distributions received		-	1,724,087
Distributions paid to investors		(24,987,786)	(23,739,410)
Interest paid		(10,007,608)	(6,604,803)
Interest warranty fee paid		(21,400,017)	(21,228,806)
Net cash flows (used in)/from operating activities	7b	<u>(2,499,452)</u>	<u>2,405,532</u>
Cash flows from investing activities			
Mortgage loans advanced		(344,656,529)	(309,926,087)
Mortgage loans repaid		315,909,057	281,017,866
Investment in managed investment scheme		-	-
Redemption from managed investment scheme		-	27,767,167
Net cash (used in) investing activities		<u>(28,747,472)</u>	<u>(1,141,054)</u>
Cash flow from financing activities			
Proceeds from issue of redeemable units – investors		200,029,417	95,740,065
Payments on redemption of redeemable units – investors		(195,825,363)	(107,425,856)
Proceeds from borrowings		137,986,565	249,000,000
Repayment of borrowings		(120,986,565)	(227,331,900)
Net cash from investors' activities		<u>21,204,054</u>	<u>9,982,309</u>
Net increase in cash and cash equivalents		(10,042,870)	11,246,787
Cash and cash equivalents at 1 July		<u>19,829,130</u>	<u>8,582,343</u>
Cash and cash equivalents at 30 June	7a	<u>9,786,260</u>	<u>19,829,130</u>

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

EQUITITRUST INCOME FUND
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NOTES TO THE FINANCIAL STATEMENTS

1. Reporting entity

Equititrust Income Fund (the ‘Scheme’) is a registered managed investment Scheme under the Corporations Act 2001. The financial report of the Scheme is for the year ended 30 June 2008.

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 31 October 2008.

(b) Basis of measurement

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

The financial report has been prepared on a going concern basis 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)- note 10 (c)(ii) impairment of mortgage loans

Note 3 (i) going concern

Note 10(c)(iii).- liquidity risk

3. Significant accounting policies

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

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

EQUITRUST INCOME FUND
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NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (cont)

(a) Financial instruments

(i) Classification

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

(ii) Recognition

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

(iii) Measurement

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

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

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

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

(iv) Impairment

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

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

(v) Derecognition

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

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

(vi) Cash and Cash Equivalents

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

EQUITRUST INCOME FUND
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NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (cont)

(b) Interest income

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

(c) Expenses

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

(d) Distribution and taxation

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

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

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

(e) Redeemable units

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

(f) Finance costs

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

(g) Goods and services tax

Interest warranty 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.

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NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (cont)

(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 are available for early adoption at 30 June 2008, but have not been applied in preparing these financial statements.

- Revised AASB 101 *Presentation of Financial Statements* (September 07) introduces as a financial statement (formerly “primary” statement) the “statement of comprehensive income”. The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the Scheme’s 30 June 2010 financial statements. The Responsible Entity has not yet determined the potential effect of the revised standard on the Scheme’s disclosures.
- AASB 2008-2 *Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation*. AASB 2008-02 changes the definition of a financial liability requiring puttable instruments that meet certain conditions to be classified as equity. AASB 2008-02 is effective for years beginning on or after 1 January 2009. The Responsible Entity has not yet determined the potential effect of the revised standard on the Scheme’s disclosures.
- AASB 2008-5 *Amendments to Australian Standards arising from the Annual Improvements Project (July 2008)*. This standard provides a vehicle for making non-urgent but necessary amendments to Standards. The revised standard will become mandatory for the Scheme’s June 2010 financial statements. The Responsible Entity has not yet determined the potential effect of the revised standard on the Scheme’s financial report.

(i) Going Concern

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

During the second half of the year ended 30 June 2008 as a result of the ongoing global credit and liquidity crisis and its impact on the Australian property markets the Scheme has experienced an increase in unit holder redemption requests, and certain delays in the repayment of mortgage loans from borrowers. In addition, subsequent to year-end, the Australian Federal Government announced it would guarantee authorised deposit-taking institutions (ADIs) incorporated in Australia. As a result the Scheme has experienced a further increase in unit holder redemption requests.

As a consequence of these events, the responsible entity advised investors in the Scheme that it will defer redemptions for 90 days, to enable liquidity of the Scheme to be managed. The responsible entity, has also, subsequent to year-end, agreed to maintain a minimum investment in of \$40,000,000 in the scheme, subordinated to the rights attached of the other investors. The Manager will have the discretion to reduce the minimum investment to \$20,000,000 following the intended repayment of the existing facility of \$90,000,000 on the 31 October 2009.

As set out in notes 9 and 14, the Scheme has two loan facilities of \$90,000,000 and \$35,000,000. Subsequent to year end, the Scheme has entered into an agreement to extend a \$35,000,000 debt facility to 31 October 2009; and obtained a summary of terms and conditions outlining an offer from the provider of a \$90,000,000 debt facility to repay the facility by the payment of 4 quarterly instalments of \$20,000,000 on 31 December 2008, 31 March 2009, 30 June 2009, and 30 September 2009 and a final instalment of \$10,000,000 on 31 October 2009.

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NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (cont)

(i) Going Concern (cont)

As disclosed in note 10 (c)(iii), in the event that the Scheme is unable to meet valid redemption requests at the end of the 90 day period, for which redemptions have currently been deferred, the responsible entity has the ability to extend the deferral of the repayment of redemption requests for a total period of up to 360 days. Total unit holders funds at 30 June 2008 of \$277,510,458 are subject to these deferral conditions. If the Scheme was not be able to meet requests at the conclusion of the deferment period, the Scheme would be non-liquid and redemptions would only be payable when sufficient cash funds become available.

To continue as a going concern, the Scheme must be able to realise sufficient cash funds from the repayment of existing mortgage loans to meet loan repayment conditions, and to pay valid redemption requests.

The ongoing business operations contemplate continuation as a registered managed scheme to invest solely in registered first mortgages secured on real property with a reduction in the level of loans and receivables compared to the level at 30 June 2008.

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

4. Net assets attributable to investors - liability

	2008	2007
	\$	\$
Opening balance	273,306,404	284,992,195
Applications	200,029,417	95,740,065
Redemptions	<u>(195,825,363)</u>	<u>(107,425,856)</u>
Closing balance	<u>277,510,458</u>	<u>273,306,404</u>

All units in the Scheme are of the same class and carry equal rights. 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. All units in the Scheme outstanding at 30 June 2008 have a term to maturity of 1 year or less.

The rate of distribution paid to each investor is set at the time of entering into the mortgage investment. The distribution rates range for period ending 30 June 2008 were 7.00% to 9.75% (2007: 7.00% - 9.00%).

5. Interest Income

Interest income arises from:

	2008	2007
	\$	\$
Cash and cash equivalents	458,308	368,845
Investments in mortgages	55,165,418	48,297,375
	<u>55,623,726</u>	<u>48,666,220</u>

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NOTES TO THE FINANCIAL STATEMENTS

	2008	2007
	\$	\$
6. Auditors remuneration		
Audit fees paid by the Responsible Entity		
On behalf of the Scheme:		
Audit and review of the financial report	64,075	51,810
Other services		
- Other assurance services	27,500	24,338
	<u>91,575</u>	<u>76,148</u>
7. (a) Cash and cash equivalents		
Current deposits with banks	9,786,260	19,829,130
	<u>9,786,260</u>	<u>19,829,130</u>
7. (b) Reconciliation of cash flows from operating activities		
Net profit	-	-
Changes in operating assets and liabilities:		
Interest receivable	77,512	2,913,029
Accounts payable	212,404	(1,633,241)
Accounts receivable	(1,204,844)	(965,583)
Deferred income	(1,140,095)	1,897,395
Distribution payable	(444,428)	193,932
	<u>(2,499,452)</u>	<u>2,405,532</u>
8. Distributions paid and payable		
The distributions for the financial year comprise:		
Total distributions paid	21,196,754	20,142,310
Total distributions payable	3,346,603	3,791,032
	<u>24,543,357</u>	<u>23,933,342</u>
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.		
	2008	2007
	\$	\$
Borrowings secured - first registered mortgage debenture charge over the assets of the Scheme	87,000,000	74,500,000
Borrowings secured - second registered mortgage debenture charge over the assets of the Scheme	35,000,000	30,500,000
	<u>122,000,000</u>	<u>105,000,000</u>

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NOTES TO THE FINANCIAL STATEMENTS

9. Interest bearing liabilities (cont)

The finance facilities are interest only facilities secured over the Scheme's mortgage loans and are ongoing, subject to annual review. These facilities were utilised up to \$122,000,000 at 30 June 2008, with unutilised facilities available of \$249,240 (2007: \$19,034,665)

Interest is charged at a variable rate. At year end the weighted effective average interest rate on these facilities was 8.66% per annum (2007: 7.99%).

A \$90,000,000 facility matures on 31 October 2009 with repayment on this facility required by that date. A further facility of \$35,000,000 matured on 31 July 2008. Subsequent to year end, the terms of these facilities have been renegotiated (refer note 14).

The loans and borrowings are subject to maintaining certain loan covenants. If these covenants are not maintained, the Scheme has 14 days in which to rectify the loan covenant. One of these covenants is to maintain a debt to total eligible loans ratio of 25% for a \$90,000,000 facility and 12.5% for a \$35,000,000 facility. If the debt to eligible asset ratio is exceeded and not rectified within 14 days the banks are entitled to review the facilities and may decide to do all or any of the following:

- (a) by notice to the borrower declare the secured money immediately due and payable, and the borrower shall immediately pay the secured money;
- (b) by notice to the borrower cancel the commitment;
- (c) at the cost of the borrower, appoint a firm of independent accountants or other experts to review and report to the lender on the affairs, financial condition and business generally of the borrower and the Scheme.

At 30 June 2008, the debt ratio was 22.5 % in respect of the first facility and 8.8% for the second facility.

10. Financial instruments

a. Overview

The Fund'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 Fund's Responsible Entity, and in accordance with the Fund's constitution and Product Disclosure Statement.

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

The Fund'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 Fund are discussed below. This note presents information about the Fund's exposure to each of the above risks, the Fund'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.

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NOTES TO THE FINANCIAL STATEMENTS

10. Financial instruments (cont)

a. Overview (cont)

The Board is responsible for developing and monitoring the Fund'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 Fund, 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 Fund's activities.

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

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

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 Fund has no unrecognised financial instruments at the year-end.

b. Estimation of fair values

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

Cash and cash equivalents and mortgage loans

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

Investments

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

Investors' funds

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

Payables and interest receivable

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

Interest bearing loans

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

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NOTES TO THE FINANCIAL STATEMENTS

10. Financial instruments (cont)

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.

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NOTES TO THE FINANCIAL STATEMENTS

10. Financial instruments (cont)

c. Financial risk management

(i) Market risk

(a) Interest rate risk

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

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

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

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

	Effective average interest rate		Floating interest rate		Fixed interest		Total	
	2008 %	2007 %	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$
Financial assets								
Cash and cash equivalents	6.75%	5.75%	9,786,260	19,829,130	-	-	9,786,260	19,829,130
Mortgage loans	14.07%	13.48%	394,957,425	366,209,953	-	-	394,957,425	366,209,953
			404,743,685	386,039,083	-	-	404,743,685	386,039,083
Financial liabilities								
Interest bearing liabilities	8.66%	7.99%	122,000,000	105,000,000	-	-	122,000,000	105,000,000
Investor funds	8.82%	8.37%		-	277,510,458	273,306,404	277,510,458	273,306,404
			122,000,000	105,000,000	277,510,458	273,306,404	399,510,458	378,306,404

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NOTES TO THE FINANCIAL STATEMENTS

10. Financial instruments (cont)

c. Financial risk management

(i) Market risk

(a) Interest rate risk (cont)

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

Interest rate sensitivity

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

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

A sensitivity analysis has been performed assuming an increase and decrease in interest rates of 100 points. An increase in interest rates of 100 points will result in the following: an increase in interest income of \$4,104,119; an increase in interest expense of \$1,181,094; an increase distribution expense to investors of \$1,450,839; and an increase interest warranty fee of \$1,472,186. The net affect 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 interest warranty fee 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 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%; and
- Regular valuations of security properties by registered panel-valuers.

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

Property value sensitivity

The Scheme loan to valuation ratio ("LVR") restriction on mortgage loans is 80%. At 30 June 2008 the weighted average LVR of the Scheme was 63.4%. The Board do not anticipate a reduction in property values by more than 10%. Properties values would need to reduce significantly more for impairment losses to be incurred. At 30 June 2008 future anticipated repayments discounted at mortgage loans original effective interest rates would meet the carrying value of loans therefore no impairment loss was considered necessary. A decrease or increase of 10% in property values would no effect on impairment assessment as reporting date.

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NOTES TO THE FINANCIAL STATEMENTS

10. Financial instruments (cont)

c. Financial risk management

(ii) Credit risk

Credit risk is the risk that a counterparty 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:

	2008	2007
	\$	\$
Cash and cash equivalents	9,786,260	19,829,130
Receivables	3,867,784	2,740,452
Mortgage loans receivable	394,957,425	366,209,953
Total assets	408,611,469	388,779,535

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

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

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

The Scheme minimises concentrations of credit risk by undertaking transactions with a number of customers and counterparties. A concentration of credit risk exists in respect of mortgage loans with a total of seven loans individually exceeding 5% of the total value of mortgage loans and which represent \$207,869,149 (52.63%) of total loans existing at 30 June 2008. At 30 June 2007 the Scheme was exposed to a concentration of credit risk in respect of six loans individually exceeding 5% of the total value of mortgage loans and which represented \$119,852,249 (38.69%) 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:

	2008		2007	
	\$	%	\$	%
Gold Coast	90,613,809	23%	77,809,832	21%
Brisbane/Sunshine Coast	66,363,408	17%	110,529,151	30%
Qld - Other	88,854,287	23%	85,198,506	23%
Sydney	43,027,663	11%	14,089,371	4%
NSW - Other	88,245,738	22%	53,661,562	15%
Other States	17,852,520	4%	24,921,531	7%
	394,957,425	100%	366,209,953	100%

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NOTES TO THE FINANCIAL STATEMENTS

10. Financial instruments (cont)

c. Financial risk management

(ii) Credit risk (cont)

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

	2008		2007	
	\$	%	\$	%
<u>Static loans</u>				
Residential	32,106,113	8	58,474,777	16
Commercial	57,606,159	15	61,605,487	17
Future development	31,304,674	8	-	-
Land	18,575,499	5	34,699,414	9
	139,592,445	36	154,779,678	42
<u>Construction and development</u>				
Residential	92,519,656	23	44,756,181	12
Commercial/Industrial	14,944,564	4	51,244,490	14
Land subdivision	147,900,761	37	115,429,604	32
	255,364,981	64	211,430,275	58
Total	394,957,426	100	366,209,953	100

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

	2008			2007		
	Number of loans	\$	%	Number of loans	\$	%
Less than 3 months	44	146,441,745	37	37	144,692,487	40
3 months to 12 months	65	245,705,447	62	58	191,171,119	52
Greater than 12 months	1	2,810,233	1	13	30,346,347	8
	110	394,957,425	100	108	366,209,953	100

Due to the current state of the financial markets, property market, and liquidity crisis, the actual amounts receivable to 30 June 2009 will be less than the scheduled maturities within 12 months of \$392,147,192.

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NOTES TO THE FINANCIAL STATEMENTS

10. Financial instruments (cont)

c. Financial risk management

(ii) Credit risk (cont)

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

	2008			2007		
	Number of loans	\$	%	Number of loans	\$	%
Not past due	102	383,989,528	97	93	341,033,180	93
Past due 0-30 days	1	6,829,637	2	10	16,432,259	5
Past due 31-60 days	1	287,572	-	-	-	-
Past due 61 - 90 days	-	-	-	-	-	-
Past due 91 - 120 days	2	663,000	-	2	4,145,865	1
Past due > 120 days	4	3,187,688	1	3	4,598,649	1
	110	394,957,425	100	108	366,209,953	100

Based on historic default rates, the Manager does not believe that an impairment allowance is necessary for amounts past due by up to 30 days. Further based on valuations of underlying security being significantly higher than the balance due for all other past due loans no impairment allowance was considered necessary.

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

	2008			2007		
	Number of loans	\$	%	Number of loans	\$	%
	27	69,049,941	17%	28	103,022,430	28%

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

Mortgagee in possession

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

Property description	Loan balance	LVR
	\$	%
Residential lots	5,495,192	58%
Residential lots (i)	2,810,233	47%
Total	8,305,425	

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

Subsequent to reporting date the above property (i) was sold under an unconditional contract for \$5,000,000 and due to settle in November 2008.

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NOTES TO THE FINANCIAL STATEMENTS

10. Financial instruments (cont)

c. Financial risk management

(ii) Credit risk (cont)

Pledge of loan book as collateral

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

(iii) Liquidity risk

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

The property and the financial services sectors have experienced significantly adverse market conditions during the year and subsequent to year-end. These conditions may result in future 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. In addition, further loss of confidence in the finance sector may also result in increased redemption requests, or further reduce investor application levels, from investors in the scheme.

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 effected. The Responsible Entity manages the Scheme's liquidity risk associated with the need to satisfy member's requests for redemptions through the following mitigating measures:

- Liquidity protection rules in the Scheme's constitution allow the scheme up to 180 days to delay redemptions and a further 180 days if necessary, should there be insufficient cash reserves.
- The Scheme's liquidity risk is managed on a daily basis by the Responsible Entity in accordance with the policies and procedures in place. The Scheme's overall liquidity risks are monitored on a monthly basis by the management team and Chief Executive Officer.
- Maintaining undrawn finance facilities. Balance of undrawn facilities at 30 June 2008 of \$249,241 (2007: \$14,846,845).
- Maintaining a minimum investment in the Scheme by the Responsible Entity of \$40,000,000. Balance as at 30 June 2008 is \$42,136,143. The Manager will have the discretion to reduce the minimum investment to \$20,000,000 following the intended repayment of the existing facility of \$90,000,000 on the 31 October 2009.
- Offering investments with fixed maturity of 6 to 12 months.
- Lending to borrowers with first mortgage security for periods generally not exceeding 12 months and only where borrowers meet the Scheme's lending criteria.
- Where possible, increasing the interest differential between bank rates and investor rates.

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NOTES TO THE FINANCIAL STATEMENTS

10. Financial instruments (cont)

c. Financial risk management

(iii) Liquidity risk (cont)

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.

In the event that the Scheme was unable to meet redemption requests the Responsible Entity would defer payment of redemption requests by up to 360 days. If redemption requests were unable to be satisfied within this extended timeframe, the Scheme would be made non-liquid in accordance with the Corporations Act 2001 and investors would be repaid when the Scheme had sufficient cash funds to do so.

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

	<i>Carrying amount</i>	<i>Contractual cash flows</i>	<i>6 mths or less</i>	<i>6-12 mths</i>	<i>1-2 years</i>
30 June 2008:	\$	\$	\$	\$	\$
Financial liabilities					
Secured bank loans	122,000,000	122,000,000	35,000,000	87,000,000	-
Investors' funds	277,510,458	277,510,458	173,115,814	104,394,644	-
30 June 2007:					
Financial liabilities					
Secured bank loans	105,000,000	105,000,000	-	105,000,000	-
Investors' funds	273,306,404	273,306,404	154,601,694	118,704,710	-

To minimise concentration risk secured bank loans are held with two banks. A facility of \$90,000,000 is held with a bank and a further facility of \$35,000,000 with another bank. These facilities are subject to annual review by the banks.

(iv) Capital protection

The Responsible Entity Board's policy is to maintain a minimum investment of \$40,000,000 in the Scheme. Subsequent to balance date the rights attached to the Responsible Entity's investment will be subordinated to those of other investors. This will afford protection to investors and banks that any first loss up to \$40,000,000 will be absorbed by the Responsible Entity's investment. The Manager will have the discretion to reduce the minimum investment to \$20,000,000 following the intended repayment of the existing facility of \$90,000,000 on the 31 October 2009. This will encourage market confidence and to sustain future development of the business.

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

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

The Scheme is not subject to externally imposed capital requirements.

EQUITRUST INCOME FUND
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NOTES TO THE FINANCIAL STATEMENTS

11. Impairment of mortgage loans

At 30 June 2008, in response to the current economic and financial conditions, the Responsible Entity reviewed the carrying value of mortgage loans of the Scheme in order to identify whether any loans may be impaired.

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

- Valuations of security properties completed by registered valuers;
- Actual sale prices realised on completed projects; and
- Estimated time to realise mortgage loans.

As a result of this review, the Responsible Entity recorded impairment losses in respect of mortgage loans of nil (2007: nil).

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:

2008:

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

207,869,149

2007:

Total Principal \$	Estimated Value of Security \$	Estimated LVR %	Method of Assessing Value at 30 June 2008	Valuation Date Range
29,833,106	34,033,000	57	Independent valuations	April 07 to May 07
28,816,233	86,015,482	48	Independent valuations	July 04 to June 07
23,457,671	27,461,275	64	Independent valuations	November 06 to December 06
18,870,726	101,658,000	60	Independent valuations	February 05 to January 07
18,604,513	26,940,000	70	Independent valuations	September 05 February 06

119,582,249

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NOTES TO THE FINANCIAL STATEMENTS

11. Impairment of mortgage loans (cont)

Mortgage loans are secured by registered first mortgages. The impairment of mortgage loans at each balance date is based on assessment of impaired loans at balance date, which included an analysis of independent valuations of security properties and loan to valuation ratios, which do not initially exceed 80% (2007: 80%). LVR is calculated as the loan approved amount as a percentage of the value of security property held.

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

- (i) The Scheme held a mortgage loan with a carrying value of \$4,061,727 at year-end and the loan-to-value ratio of this mortgage at year-end was 47%. The directors of the Responsible Entity consider this loan to be fully recoverable as the Scheme holds a registered first mortgage over the security property.
- (ii) The Scheme held a mortgage loan with a carrying value of \$551,864 at year-end and the loan-to-value ratio of this mortgage at year-end was 66%. The directors of the Responsible Entity consider this loan to be fully recoverable as the Scheme holds a registered first mortgage over the security property.

There are no other significant mortgage loans in default at 30 June 2008 and no impairment.

As at 30 June 2007, the following significant mortgage loans with a carrying value totalling \$5,848,990 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 \$4,106,056 at year-end and the loan-to-value ratio of this mortgage at year-end was 56%. 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 \$1,241,953 at year-end and the loan-to-value ratio of this mortgage at year-end was 25%. 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 \$500,980 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.

There were no other significant mortgage loans in default at 30 June 2007 and no impairment.

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 its interest warranty fees being determined as the residual interest in the Scheme surplus following distribution to investors of returns, and the guarantees the Responsible Entity has given to investors over their investments, 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.

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NOTES TO THE FINANCIAL STATEMENTS

12. Related parties (cont)

Key management personnel (cont)

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
Wayne McIvor	Appointed 10 August 2000

Responsible entity fees and other transactions

	2008	2007
	\$	\$
Interest warranty fees expense	21,072,761	19,595,565

The Responsible Entity has issued a guarantee to investors in the Scheme over fixed returns on their investments (interest warranty), as well as a guarantee of up to \$10,000,000 over capital they have invested (capital warranty). The interest warranty fee is given as compensation to the Responsible Entity for these guarantees and is calculated as the surplus of mortgage lending after payment of Scheme investors' warranted return and any associated costs and outlays of the Scheme. Interest warranty fees outstanding as at 30 June 2008 - \$1,549,279 (30 June 2007: \$1,876,535).

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 (2007: nil).

Units in the Scheme held by other related parties

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

30 June 2008	Unit Holding	Interest held	Applications	Withdrawals	Distributions paid/payable
Equititrust Ltd	42,136,143	15.18%	\$146,648,000	\$104,511,857	\$2,621,700
Shakespeare Haney Premium Income Fund	8,000,000	2.88%	\$8,000,000	-	\$284,411
30 June 2007					
McIvor Superannuation Fund	-	-	-	\$970,000	\$34,787

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NOTES TO THE FINANCIAL STATEMENTS

12. Related parties (cont)

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 \$2,874,118 in respect of guarantees issued by a bank to borrowers on behalf of the Scheme. These guarantees have been included in the borrowers approved loan facilities.

14. Events subsequent to reporting date

- Subsequent to year-end, the Manager has agreed to maintain a minimum investment in the Scheme of \$40,000,000, subordinated to the rights attached of other investors. The Manager will have the discretion to reduce the minimum investment to \$20,000,000 following the intended repayment of the existing facility of \$90,000,000 on the 31 October 2009. This will afford further protection to the other investors and assist the Scheme's liquidity.
- Subsequent to year-end, an indicative summary of terms and conditions has been received outlining an offer to extend the existing bank facility for \$90,000,000 to 31 October 2009 on the basis of quarterly repayments of \$20,000,000 commencing 31 December 2008 with a final repayment of \$10,000,000 by 31 October 2009. As part of the terms of the facility, the Manager has agreed to maintain a minimum investment in Scheme of \$40,000,000 and has subordinated the rights attached to this investment to those of the other investors. In addition the twelve months budget is to be subject to a review by a bank appointed consultant. This will also afford further protection to investors and assist the Scheme's liquidity. An agreement has also been entered into with a further financier for an existing facility of \$35,000,000 to be extended to 31 October 2009.
- Subsequent to year end, as a result of the ongoing global credit and liquidity crisis, its impact on the Australian property markets and the recent announcement by the Australian Federal Government to guarantee authorised deposit-taking institutions (ADIs) incorporated in Australia, the Scheme has experienced an increase in unit holder redemption requests, and certain delays in the repayment of mortgage loans from borrowers. As a consequence of these events, the responsible entity advised investors in the Scheme on 30 October 2008 that it will defer redemptions for 90 days to enable liquidity of the Scheme to be managed. The responsible entity has also advised that investors will continue to receive income distributions as they fall due.

The financial effect of these events subsequent to balance date have not been reflected in the financial statements at 30 June 2008.

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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 5 to 29, 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 2008 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

31 October 2008



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

Report on the financial report

We have audited the financial report of Equititrust Income Fund ('the Scheme'), which comprises the balance sheet as at 30 June 2008, and the income statement, statement of recognised income and expense and statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 14, and the directors' declaration set out on page 30.

Directors' responsibility for the financial report

The directors of Equititrust Limited ('the Responsible Entity') are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 2(a), the directors of the Responsible Entity also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

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

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

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

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

Independence

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

Auditor's opinion

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

- (a) the financial report of Equititrust Income Fund is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Scheme's financial position as at 30 June 2008 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a)

Material uncertainty regarding continuation as a going concern

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



KPMG



P G Steer
Partner

Gold Coast

31 October 2008

Building Relationship

EQUITITRUST

Income & Finance

Directorate

Manager

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

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