

Monday, 3 September 2007

MARKET ANNOUNCEMENT

Investment Manager's Report as Annexure to 2007 Full Year Report

We enclose the Investment Manager's Report as an annexure to the 2007 Full Year Report dated 31 August 2007 previously lodged by the Company on ASX.

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24 July 2007

The Directors of Scarborough Equities Limited
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Fund Performance

By now you should have received your June Investor Statement, which showed a 2.3% increase for the month. This is a positive result in the context of a 0.2% fall in the S&P/ASX 200 Accumulation Index.

We are pleased to report that for the twelve months to June 30 2007 the Fund produced a net return of 46.0%, which comfortably exceeded its benchmark, the S&P/ASX 200 Accumulation Index, which returned 28.7% over the same period. The Fund outperformed its benchmark by 17.4% for the year.

A \$100,000 investment at inception in April 2002 in the FSP Equities Leaders Fund would have been worth \$313,258[†] on June 30 2007. If you invested the same amount in the S&P/ASX 200 Accumulation Index it would have been worth only \$231,898. So as you can see the Fund has added a considerable amount of "outperformance dollars" for its clients over this period.

Performance history

The table below shows the performance history of the Fund on an annualised basis.

Period	FSP Equities Leaders Fund Net Return [†]	S&P/ASX 200 Accumulation Index Return	Value added
1 year to June 30	46.0%	28.7%	17.4%
2 years annualised	35.2%	26.3%	8.9%
3 years annualised	31.7%	26.3%	5.3%
4 years annualised	36.1%	25.1%	11.0%
5 years annualised	25.7%	19.2%	6.5%

General Market Update

The Australian share market continues to appreciate strongly. For the first six months of the year the S&P/ASX 200 Accumulation Index returned 12.7%, again outperforming global stock markets, which returned 8.0% as measured by the MSCI World Index. Over this period the Dow Jones Industrial Average returned 7.6%, the FTSE 100 rose 6.2%, The Nikkei 225 was up 5.3% and the NZSX50 4.4%, while the German DAX produced a very strong 21.4%, and the Shanghai market recorded a 42.8% gain, despite corrections in the second half.

In June, a strong Australian March quarter GDP figure was reported, which showed growth of 1.6% on the previous quarter, compared to the consensus estimate of 1.2%. This brought the annual growth rate to 3.8%. May saw the release of the Federal Budget, which provided further tax cuts and spending initiatives, estimated to provide a fiscal stimulus over the 2006/2007 Budget equal to 0.7% of GDP. Notable features included the announcement of \$22bn of spending over five years on road and rail infrastructure, and \$5bn of funding for a Higher Education Endowment Fund, to be managed alongside the Future Fund. The Education Fund endowment and the Government's reiteration of its support for superannuation as the preferred method of saving provide reinforcement to the current strong liquidity environment.

The reporting season is about to begin in Australia, and current expectations are for earnings per share growth for the broad market of 15.8%, highlighting the strong health of Australian businesses**. The market is currently trading on an estimated 14.6x forward earnings, which compares to a multiple of around 19x – 20x in 1999 and 2000.

The table below shows the average of GDP growth forecasts from various investment banks for Australia and other major economies (Source: The Economist). We note Australia's position among the leading economies – behind only China, India and Spain in 2007 and only China and India in 2008.

Country	2007	2008
Australia	3.5	3.3
Belgium	2.6	2.3
Britain	2.8	2.4
Canada	2.5	2.7
France	2.0	2.1
Germany	2.8	2.3
Italy	1.9	1.7
Japan	2.6	2.3
Netherlands	2.7	2.6
Spain	3.7	2.8
Switzerland	2.4	2.1
United States	2.1	2.7
Euro area	2.7	2.3
China	10.3	9.7
India	8.1	7.6

China's economic growth, the major driver of our resources boom, continues apace. The Chinese economy grew at its fastest pace in 12 years in the second quarter, up 11.9% on the same period last year.



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We note that the annualised 20-year return from Australian equities has been 11.3% per annum, while the 10-year return has been 12.7% per annum. So the last 4 years' returns from equities, of 25.1% per annum, have certainly been well above their long-term averages.

Stock Performances

In the year to June 30 the Fund held a number of stocks from the blue chip universe of the ASX 200 which produced returns of over 50%. These returns were driven by a range of factors, as Transpacific Industries (+103%), Toll Holdings (+83%), Tattersall's (+72%), Pacific Brands (+68%), OneSteel (+62%) and Alesco Corporation (+60%) each gained on a mix of acquisitions and strong organic growth, while Consolidated Minerals (+78%) and MacArthur Coal (+58%) benefited from strength in commodity prices. Challenger Financial Services (+78%) rose on buoyant investment markets, growth in its funds under management and the roll out of new products, and Southern Cross Broadcasting (+59%) gained on the sale of its Channel 9 assets and the proposed acquisition of its remaining assets by Macquarie Media Group and Fairfax.

Among our non-ASX 200 holdings, Strike Resources gained 225% over the period, while Vulcan Resources were up 122% and Geodynamics rose 90%.

Top 15 Holdings as at 30 June 2007

ASX Code	Asset Name	Fund Weight	ASX 200 Weight
BHP	BHP BILLITON	13.1%	10.2%
	CASH	5.3%	-
WBC	WESTPAC BANKING CORPORATION	5.3%	4.0%
NAB	NATIONAL AUSTRALIA BANK	4.4%	5.3%
WPL	WOODSIDE PETROLEUM	3.6%	1.6%
HVN	HARVEY NORMAN	2.6%	0.3%
CGJ	COLES GROUP	2.3%	1.4%
BNB	BABCOCK & BROWN	2.1%	0.6%
IAG	INSURANCE AUSTRALIA GROUP	2.0%	0.9%
SUN	SUNCORP-METWAY	1.9%	1.5%
TSE	TRANSFIELD SERVICES	1.9%	0.1%
BBI	BABCOCK & BROWN INFRASTRUCTURE	1.7%	0.2%
GDY	GEODYNAMICS	1.5%	-
SAR	SARACEN MINERAL HOLDINGS	1.5%	-
BXB	BRAMBLES	1.3%	1.3%

During the June quarter the Fund disposed of its 3.9% holding in Rinker Group, after Cemex increased its bid, which was recommended by the directors of the company.

BHP remains the fund's largest position, making up 13.1% of the fund, compared to its ASX 200 weighting of 10.2%. While BHP's stock price is up 52% in 2007, it is important to note that the prices of many of its key commodities have also risen considerably; such as copper (up 30%), and crude oil (up 24%); while the outlook for 2008 price negotiations for coal (both coking and thermal) and iron ore is very positive at this stage.



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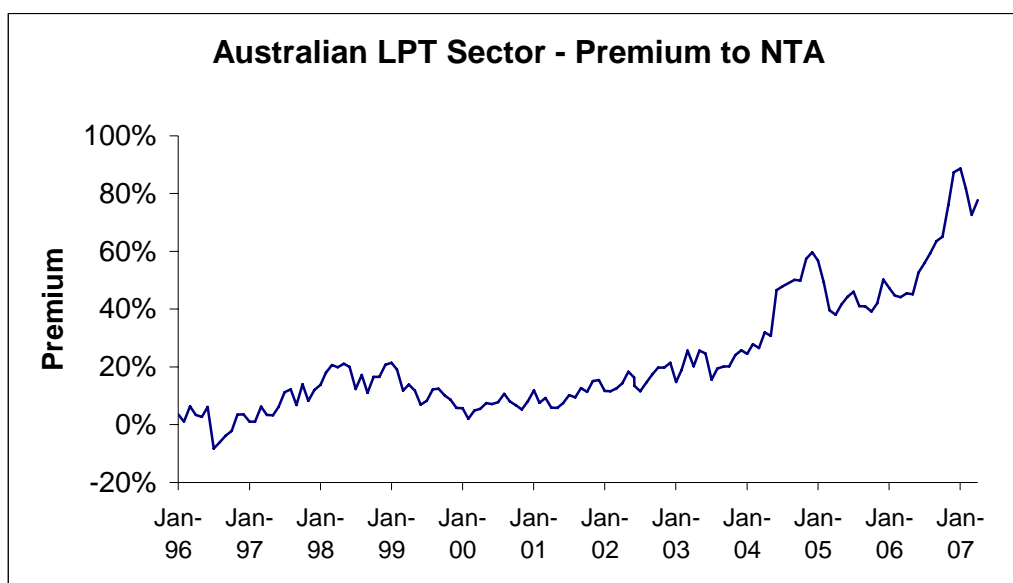
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At a stock price of \$38.40 and using consensus forecasts, BHP trades on an FY08 PE multiple of 13.8x, which compares favourably to that of the All Industrials (excluding financials) of 17.6x, while these forecasts use commodity prices 10 –15% below the current price. In February 2007, BHP announced it would return US\$10 billion of cash to shareholders through a series of share buybacks over the next 18 months, which should provide further support for the stock price. Another reason we like BHP is its substantial pipeline of projects scheduled to commence production over the next few years, across commodities such as nickel (Ravensthorpe), copper/uranium/gold (Olympic Dam), iron ore (Pilbara expansion), oil and gas (Shenzi - Gulf of Mexico), and thermal coal (Mt Arthur North).

Over the last two quarters, the worst performing sector of the ASX 200 has been the Property Trust sector, which fell by 3% while the S&P ASX 200 Accumulation Index gained 12.7%. The graph below depicts the market price of this sector relative to Net Tangible Asset value (NTA). The price is clearly at an historically high premium to the NTA. The Fund currently has exposure to only one stock in this sector, Westfield, with a 0.4% weighting.



source: UBS

The table below shows the month by month percentage returns of the Fund[†] since inception. We would like to point out that months of negative returns do occur, although June has marked the eleventh consecutive month of positive returns.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year to date
2002				0.7	1.2	-2.2	-4	2.6	-4.4	1.1	-0.6	-0.9	-6.5%
2003	-2.2	-6.9	0.4	4.6	-1.8	4	7.5	11.2	6.7	6.9	-1.4	5.4	38.3%
2004	0.9	2.3	2.7	-2.8	0.6	2.6	2.1	2.3	3.9	6.3	5.4	1.5	31.2%
2005	0.8	0.7	-0.9	-3.8	2.5	1.9	5.5	2.1	4.7	-3.4	2.2	2.2	15.1%
2006	1.2	3.2	3.9	4.4	-2.9	0.0	-0.3	2.9	4.8	6.1	3.3	4.6	35.5%
2007	3.6	0.2	3.9	4.5	2.7	2.3							18.5%



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Yours sincerely,



Ronni Chalmers
Investment Director

Important information and disclaimer:

Performance is influenced by market volatility over time. Past performance is not necessarily indicative of future performance. Neither FSP Equities Management Pty Limited nor any related corporation guarantees the repayment of capital or the performance of the FSP Equities Leaders Fund.

*The contents of this report have been prepared without taking into account your individual objectives, financial situation or needs. Because of that, before acting you should consider the appropriateness of what is included here, having regard to your own objectives, financial situation and needs and see your qualified financial adviser before making any investment decision.

This report may include statements (including opinions) about particular financial products or classes of financial products in which the FSP Equities Leaders Fund is or has invested – these statements are not intended to influence any person in making a decision in relation to these financial products or classes of financial products and hence do not constitute financial product advice.

**These figures based on UBS estimates

†Performance calculations provided by White Outsourcing, a subsidiary of Moore Stephens Sydney, which is a member firm of Moore Stephens International Limited. The returns are net of all fees, pre-tax and assume DRP.



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