

Thursday, 8 February 2007

MARKET ANNOUNCEMENT

Investment Manager's Report for December 2006

The Company is please to enclose the December 2006 report from FSP Equities Management Limited (FSP) on the performance of its FSP Equities Leaders' Fund (FSP Fund).

As at 31 December 2006, the Company had a total of \$19.37 million (91% of the Company's net assets) invested in the FSP Fund under the management of FSP.

The 12 month net performance of the FSP Fund to 31 December 2006 was 35.5%. The benchmark performance (S&P/ASX 200 Accumulation Index) was 24.2%.

About the FSP Fund

The FSP Fund is a wholesale fund not open to retail investors. The investment management team is led by Mr Ronni Chalmers. The objective of the fund is to outperform the S&P/ASX 200 Accumulation Index over the medium term. There is no minimum equity weighting with the equity weighting as at 30 June 2006 being 100%.

75% of the equity portfolio is targeted to companies contained within the S&P/ASX 200 index. The remaining 25% of the portfolio is invested in companies outside of the S&P/ASX 200 index. The equity portfolio contains approximately 100 holdings. The equity portfolio contains approximately 100 holdings. The Investment Manager is "style neutral" and invests in growth stocks, value stocks, stocks with maintainable dividend yields and special situations.

For further information:

Farooq Khan
Chairman
T | 1300 762 678
E | fkhan@scarboroughequities.com.au

Christopher Ryan
Director
T | (02) 9363 5088
E | c.ryan@westchester.com.au

ABN 58 061 287 045

Registered Office:

Suite 202, Angela House
30-36 Bay Street
Double Bay New South Wales 2028
T | (02) 9363 5088
F | (02) 9363 5488
E | info@scarboroughequities.com.au
W | www.scarboroughequities.com.au

ASX Code: SCB



Company Secretarial Office:

Level 14, The Forrest Centre
221 St Georges Terrace
Perth, Western Australia 6000
Local T | 1300 762 678
T | (08) 9214 9717
F | (08) 9322 1515
E | vho@scarboroughequities.com.au

25 January 2007

The Directors of Scarborough Equities Limited
Suite 202
30-36 Bay Street
Double Bay
NSW 2028

Fund Performance

By now you will have received your December Investor Statement and will be aware that the FSP Equities Leaders Fund returned a net 4.6% for the month. This compared to a return of 3.7% for the S&P/ASX 200 Accumulation Index in the month.

The Fund's net twelve-month return to December 31 2006 was 35.5%, which compares favourably to 24.2% for the S&P/ASX 200 Accumulation Index in the same period. We at the FSP Equities Leaders Fund are delighted to have added such a significant amount over and above the benchmark to your portfolio in 2006.

As you may be aware the FSP Equities Leaders Fund was started in April 2002. As we approach the 5th anniversary it is worthwhile pointing out that a \$100,000 investment on day one would now be worth over \$264,390. This compares favourably with a similar amount invested in the S&P/ASX 200 Accumulation that would only be worth \$205,769. So as you can see the Fund has added a considerable amount of "outperformance" dollars for its clients over this period.

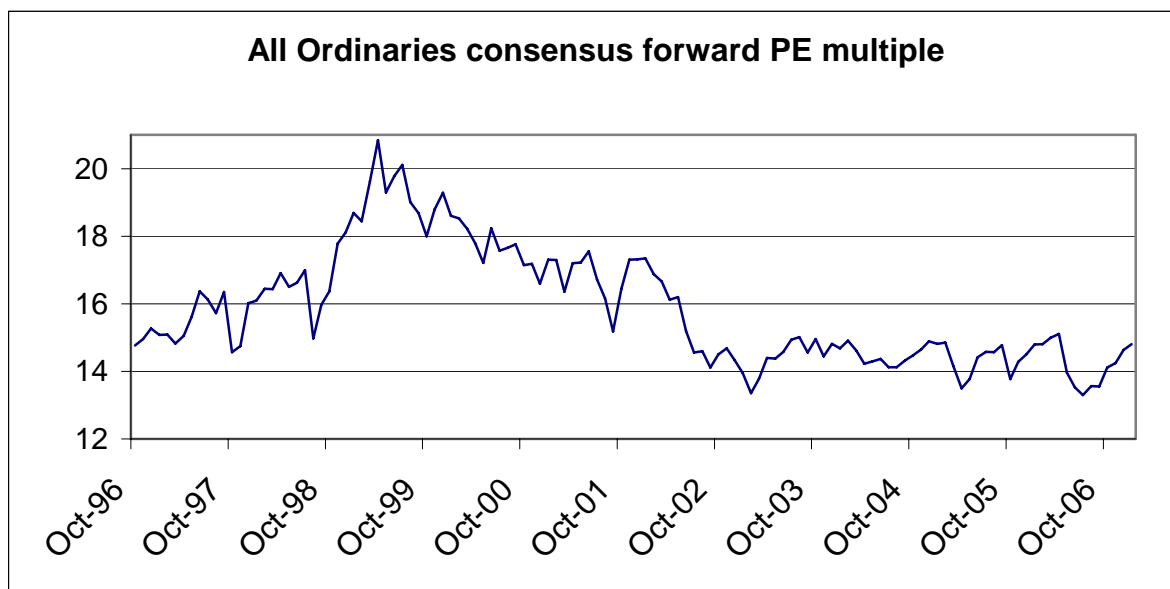
General Market Overview

The Australian Equity market continues to perform well against overseas equity markets. Our stock market's return of 24.2% comfortably outperformed the global stock markets, which returned 20.7% as measured by the Morgan Stanley Capital International Index (MSCI).

Over this period, returns from other major equity markets were: the Dow Jones 16.3%; the FTSE 100 10.7%; the Nikkei 6.9%; the German market (DAX 30) 21.9%, and the French market (CAC 40) 17.5%.

Australian Market

The Australian equity market is currently trading at around 14.7 times forecast June 2007 earnings. As illustrated below, this is near its lowest level over the last 10 years, while the earnings growth profile going forward is robust. UBS estimate 15.4% EPS growth for the All Ordinaries in FY2007, although this is forecast to reduce in FY2008.



Source: UBS

The market continues to be supported by a number of positive drivers, including the overall health of the Australian economy. In addition, the equity market supply and demand situation, superannuation savings, merger and acquisition activity and other sources of inflows continue to provide strong demand.

We have updated the table on the page below to include the effect of further merger and acquisition activity since June 30. The current estimates imply \$65bn of excess demand.



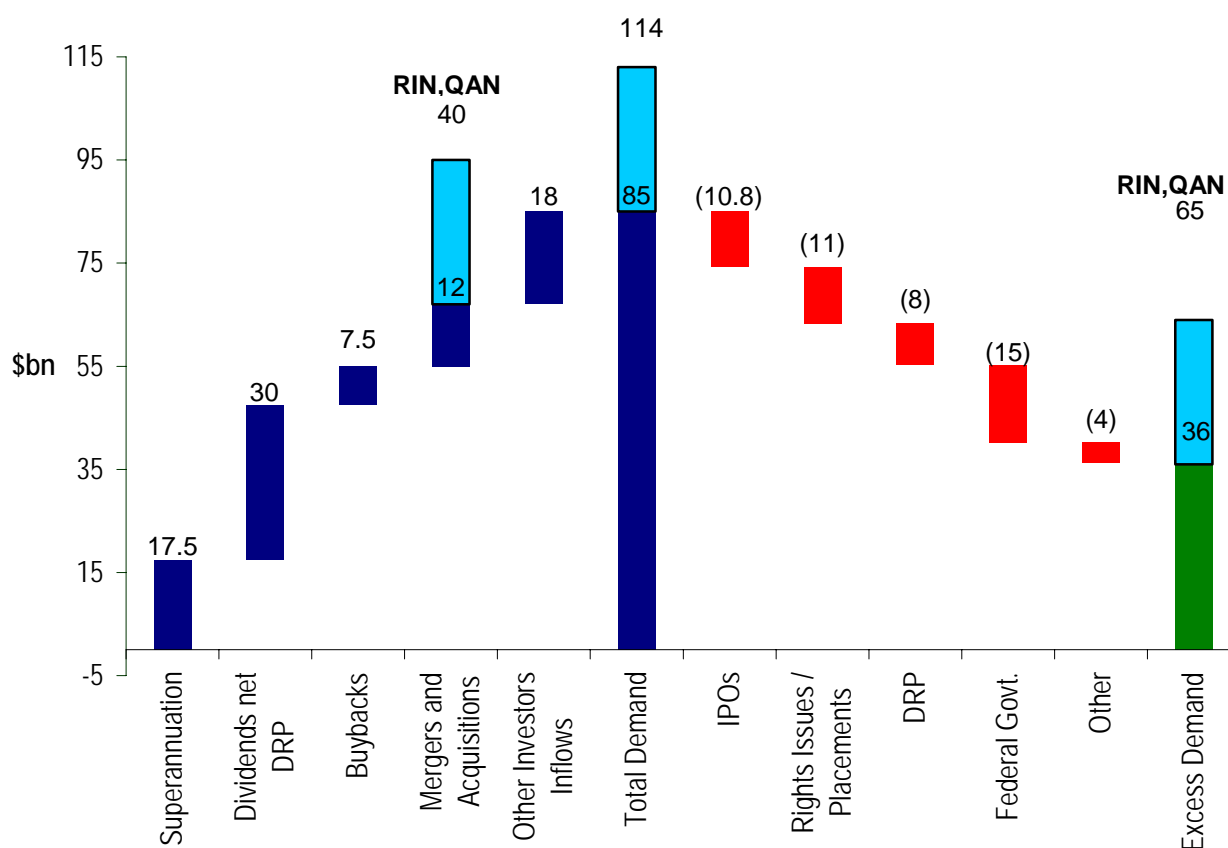
FSP Equities Management

ABN 12 098 327 809 AFS Licence No 246790

L34 Australia Square 264-278 George St Sydney NSW 2000

Tel: 02 9253 8500 Fax: 02 9253 8616 Web: www.fspgroup.com.au Email: equities@fspgroup.com.au

Australian Equity Demand / Supply



Source: UBS / MBL Dec 2006

Despite some capacity constraints and the impact of continued dry conditions affecting the farm sector, most recent forecasts show that Australia is among the leading OECD economies in terms of GDP growth for 2007 and 2008 (source: OECD)

Stocks Performance

From the blue chip universe of the ASX 200, the Fund's best performing stocks for the year included AXA Asia Pacific +43%, Babcock & Brown +44%, Coles Group +37%, Harvey Norman +30%, Minara Resources +208% and Transpacific +68%.

The best performing stocks from our non ASX 200 stocks included Austin Engineering and Strike Resources, which both increased by over 200% in the year, while Mariner Bridge and Argonaut Resources rose by over 100% from our cost price.



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Top 20 Holdings as at 31 December 2006

ASX Code	Asset Name	% Weighting of Fund	S&P/ASX 200 Weighting
BHP	BHP	6.3	8.0
NAB	NATIONAL AUST BANK	4.6	5.7
RIN	RINKER	3.4	1.4
COH	COCHLEAR	3.3	0.3
	CASH	2.8	
CGJ	COLES	2.8	1.4
BNB	BABCOCK & BROWN	2.5	0.3
MBL	MACQUARIE BANK	2.3	1.8
IAG	INSURANCE AUST	2.2	1.0
BXB	BRAMBLES	2.1	1.8
WBC	WESTPAC BANK	2.0	4.0
MTS	METCASH	1.9	0.3
TSE	TRANSFIELD	1.8	0.1
TOL	TOLL HOLDINGS	1.7	1.0
TEN	TEN NETWORK	1.7	0.1
BOQ	BANK OF QUEENSLAND	1.7	0.1
AXA	AXA ASIA PACIFIC	1.6	0.6
BBI	BABCOCK & BROWN INFRASTRUCTURE	1.5	0.2
PMN	PROMINA INSURANCE	1.5	0.7
ADB	ADELAIDE BANK	1.5	0.1
	TOTAL	49.2	28.9

We have continued to buy BHP shares in January. At the time of writing it now represents a 9.5% weighting in the Fund.

The FSP Equities Leaders Fund is primarily a stock-picking fund. We are “style neutral”, which means we have a diversified group of over 110 stocks in the portfolio. Some are “growth stocks”, for example the BNB, COH and TOL, which typically grow their top and bottom lines by a multiple of GDP growth. We also hold “value” stocks like BHP & NAB that trade at discounts in their valuations to the broad market.

Outlook

The Fund has produced the following net results over the past four years:

1 year net return to 31 December 2006 was 35.5% as compared to 24.2% from the S&P/ASX 200 Accumulation.

2 years net return to 31 December 2006 was 55.9% as compared to 52.6% from the S&P/ASX 200 Accumulation.

3 years net return to 31 December 2006 was 104.5% as compared to 95.2% from the S&P/ASX 200 Accumulation



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4 years net return to 31 December 2006 was 182.8% as compared to 123.8% from the S&P/ASX 200 Accumulation

Some of our clients today were original investors in the Fund when it commenced in April 2002. Despite the solid 4-year numbers mentioned above, the Fund recorded a negative result (albeit only negative 4.5%) in the 9 months to December 2002. This is a timely reminder that stock market investors need to focus on the medium to long term. Corrections do happen, but astute stock picking helps cushion the fall.

After four years in which the average return from the market has been in excess of 20% per annum one should be more cautious. Wages and raw material costs are increasing at a higher rate than CPI, which increases the uncertainty. Market valuations are fair rather than cheap. The Fund has done well buying into good stocks post large falls. For example Rinker was bought at \$13 after the stock peaked at \$21, and DCA Group was bought at \$2.50/\$2.70 following a peak of \$4.00 before we reluctantly accepted the agreed-on takeover bid at \$3.50.

Equity markets by nature can be very volatile. As a case in point the S&P/ASX 200 dropped from its 10th May 2006 level of 5406 to a low of 4758 on 15th June 2006. This represented a 12% fall in 6 weeks.

The 20-year return from Australian equities is 12.2% per annum. We like to use long term data since it includes the October 1987 crash. Interestingly the 10-year returns are 11.8% per annum. So the last 4 years returns from equities have certainly been well above their long-term averages.

Superannuation Contributions

The 2006 Federal Budget proposed a number of changes to superannuation. As a number of clients hold their investment in FSP Equities Leaders Fund through their superannuation fund, these proposals may affect you. One of the proposals relates to undeducted contributions. A transitional limit of \$1million per person has been introduced for undeducted contributions (i.e. personal contributions you don't claim as a tax deduction) between 10 May 2006 and 30 June 2007. This proposal may give clients the ability to invest further funds in their superannuation fund, and in the FSP Equities Leaders Fund. *

Gearing Facility

As highlighted in the previous newsletter we have established a relationship with Tricom Margin Lending. Clients can borrow through this entity, which will allow you to increase your investment in the Fund. Clients should be aware that increased leverage may increase the risk profile of your investment and you should seek independent financial advice prior to making a decision. Currently the margin lending rate through Tricom is 2% above the RBA Cash Rate (i.e. today it equates to 8.25%), and the LVR available is 70%. For further information please contact Laura Rogers at Tricom on (02) 9210 7840.



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Thank you for your ongoing support and we wish you a successful 2007.

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.

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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