

AUSTRALIAN

RESEARCH



Contents

This is an extract from the Listed Managed Investments March 2007 Quarterly Review

IMPORTANT NOTICE

Aegis has been commissioned to produce this report.

Disclaimer & Disclosure of Interests

This publication has been prepared by Aegis Equities Research Pty Limited (ACN 085 293 910, AFSL no. 225072) ('Aegis'), an Australian Financial Services Licensee. Aegis has been commissioned to prepare this independent research report (the "Report") and will receive fees for its preparation. Each company specified in the Report (the "Participants") has provided Aegis with information about its activities. Whilst the information contained in this publication has been prepared with all reasonable care from sources that Aegis believes are reliable, no responsibility or liability is accepted by Aegis for any errors, omissions or misstatements however caused. Any opinions, forecasts or recommendations reflects the judgment and assumptions of Aegis as at the date of publication and may change without notice. Aegis and each Participant in the Report, their officers, agents and employees exclude all liability whatsoever, in negligence or otherwise, for any loss or damage relating to this document to the full extent permitted by law. This publication is not and should not be construed as, an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. Any opinion contained in the Report is unsolicited general information only. Neither Aegis nor the Participants are aware that any recipient intends to rely on this Report or of the manner in which a recipient intends to use it. In preparing our information, it is not possible to take into consideration the investment objectives, financial situation or particular needs of any individual recipient. Investors should obtain individual financial advice from their investment advisor to determine whether opinions or recommendations (if any) contained in this publication are appropriate to their investment objectives, financial situation or particular needs before acting on such opinions or recommendations. This publication is not for public circulation or reproduction whether in whole or in part and is not to be disclosed to any person other than the intended recipient, without obtaining the prior written consent of Aegis. This report is intended for the residents of Australia. It is not intended for any person(s) who is resident of any other country. Aegis and/or the Participant, their officers, employees or its related bodies corporate may, from time to time hold positions in any securities included in this Report and may buy or sell such securities or engage in other transactions involving such securities. Aegis and the Participant, their directors and associates declare that from time to time they may hold interests in and/or earn brokerage, fees or other benefits from the securities mentioned in this publication.

Aegis, its officers, employees and its related bodies corporate have not and will not receive, whether directly or indirectly, any commission, fee, benefit or advantage, whether pecuniary or otherwise in connection with making any statements and/or recommendation (if any), contained in this Report. Aegis discloses that from time to time it or its officers, employees and related bodies corporate may have an interest in the securities, directly or indirectly, which are the subject of these statements and/or recommendations (if any) and may buy or sell securities in the companies mentioned in this publication; may effect transactions which may not be consistent with the statements and/or recommendations (if any) in this publication; may have directorships in the companies mentioned in this publication; and/or may perform paid services for the companies that are the subject of such statements and/or recommendations (if any).

However, under no circumstances has Aegis been influenced, either directly or indirectly, in making any statements and/or recommendations (if any) contained in this Report.

The information contained in this publication must be read in conjunction with the Legal Notice that can be located at <http://www.aer.com.au/disclaimer.asp>.

Scarborough Equities Limited (SCB)



LMI Type	Investment Assets	Investment Area	Investment Sectors
Listed Investment Company	Listed Companies	Australia	Diversified

Company Details

SCB appointed FSP Equities Management Limited (*FSP*) as investment manager in December 2004. FSP commenced operations on 3 October 2001 via the launch of the FSP Equities Leaders' Fund and currently has around 140 wholesale clients. Since inception, the FSP Equities Leaders' Fund has consistently outperformed the S&P/ASX 200 Accumulation Index. The SCB portfolio consists of two components, being an investment of A\$21.3M in the FSP Equities Leaders' Fund and A\$3.8M invested in ASX-listed oil and gas company Drillsearch Energy Ltd (DLS).

Board

F Khan (Chairman), S Cato, W Johnson, C Ryan

Investment Philosophy

The FSP Equities Leaders' Fund that SCB invests into is based on the philosophy that equity markets can display inefficient pricing valuations in the short term that can allow an active investment style to benefit and ultimately outperform its relevant benchmark.

Style and Process

FSP focuses on publicly available information, combined with in-house research, to identify stocks with the goal of outperforming the S&P/ASX 200 Accumulation Index over the medium term. Around 75% of the equity portfolio is targeted at companies within the ASX 200 Index, with the remaining 25% invested in non-ASX 200 companies. The equity portfolio contains approximately 100 holdings, with around 50 ASX 200 stocks. The Investment Manager is 'style neutral' and invests in growth stocks, value stocks, stocks with maintainable dividend yields and special situations. The portfolio can be described as index-unaware and high conviction.

Investment Team

R Chalmers, BComm(Acc & Fin), ASIA: Investment Director; J Harris, MA (Econ), Pgrad Dip (Econ), BSMath: Equities Analyst; V Cook, BA, LLB: Analyst

Aegis Comments

FSP has generated an exceptionally strong performance for SCB over the past 12 months, with pre-tax NTA (including dividends) increasing 31.5% and total returns (share price + dividends) up 41%. This strong performance has been recorded despite a material March quarter decline in SCB's largest holding, DLS (the decline has subsequently reversed). As an investment manager, FSP now has a five-year strong track record, during which it has outperformed the S&P/ASX 200 Acc. Index by an impressive average 6.4% per annum. Aegis does not expect material changes in SCB's portfolio. The manager has built a high-quality portfolio with high conviction positions in the majority of its top 10 positions, such as BHP, RIN, CGJ, HVN. FSP's top 10 portfolio stocks suggests an adept stock-picking ability. Aegis continues to issue SCB with a Recommended rating.

Key investment information



RATING	Recommended
Price (\$)	1.06
As at 24 May 2007	
Market Cap (\$M)	20.5
Shares On Issue (M)	19.4
Shares Traded (\$M p.a.)	4.1
12-month L/H (\$)	0.80 – 1.09
Listing Date	August 1994

Fees

Management Fee (%)	0.75
Performance Incentives* (%)	13.0

* Out-performance of S&P/ASX 200 Accumulation Index.

Pre-tax NTA Performance Analytics (including dividends)

	All Ords Acc	
	1 Yr	3 Yr (p.a.)
Excess Per. (%)	9.16	na
Beta	0.23	na
TE (%)	13.73	na
IR	0.67	na

Benchmark returns are purely pre-tax, whereas LIC returns incorporate realised capital gains tax and will understate portfolio performance.

Dividend Yield (%)

FY04	FY05	FY06
7.88ff	5.91pf	4.73pf

Substantial Shareholders (%)

Orion Equities Limited	28.2
Peter Simpson and Associates	19.7

As at 31 December 2006

Company contact

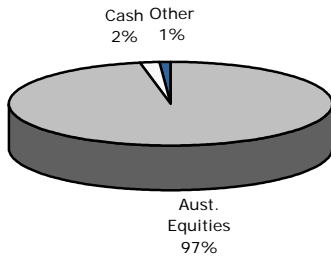


Farooq Khan
Chairman
fkhan@scarboroughequities.com.au
1300 762 678

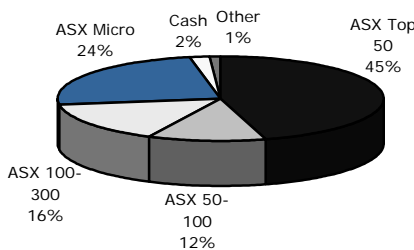
www.scarboroughequities.com.au

Sector	Industry Group	Industry	Sub Industry
Financials	Diversified Financials	Diversified Financial Services	Other Diversified Financial Services

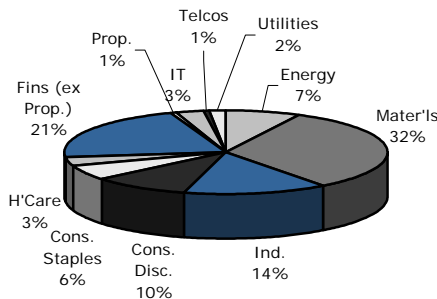
Asset Weighting



Size Weighting (Equities Component)



Sector Weighting (Equities Component)



Other Data

Options	None on issue.
Dividend policy	Distribute at least 50% of the available net profits through two distributions per year.
Capital management	The company completed a one-for-four share consolidation on 1 December 2005.
LIC tax concessions	Not expected to qualify.
DRP available	Yes

SCB's Portfolio (Top 10)

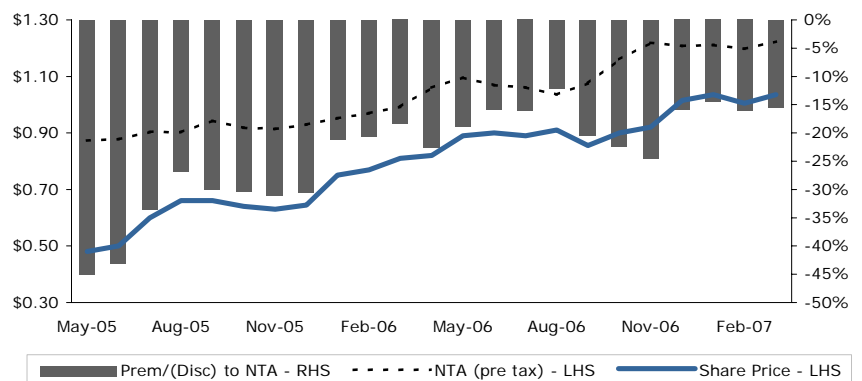
Code	Weighting		2007 Aegis Forecasts			Prem/Disc to Aegis Target (%)
	Portfolio (%)	S&P/ASX 200 (%)	PE (x)	Yield (%)	EPS Gth (%)	
DLS	15.2	na	na	na	na	na
BHP	12.7	8.6	9.6	2.2	36.1	(10.2)
NAB	5.3	5.8	15.0	4.4	11.4	(12.3)
RIN	3.8	1.4	16.8	2.3	4.3	(7.4)
WBC	3.7	4.1	14.2	4.9	10.7	(15.7)
CGJ	2.8	1.6	26.3	2.4	(1.4)	(13.6)
HVN	2.4	0.2	19.8	2.5	10.2	(10.2)
QAN	2.3	0.9	14.3	5.0	34.5	(3.7)
BNB	2.3	0.5	18.2	1.7	27.4	(21.1)
SUN	2.1	1.6	12.6	5.1	2.5	(5.7)
Total	52.6	24.9	14.4	3.1	19.9	

Tax Based Returns on Share Price and Dividends

	Fund		All Ords Acc.	
	1Yr Rtn (%)	3Yr Ann (%)	1Yr Rtn (%)	3Yr Ann (%)
No Tax (0%)	41.4	na	23.8	27.1
Super Fund (15%)	39.3	na	22.9	26.1
AWOTE* (31.5%)	37.0	na	21.9	25.0
Max Tax Rate (46.5%)	34.9	na	20.8	23.9

* Marginal Tax Rate for worker on the Average Wage OTE rate + Annualised

NTA Performance



Source all figures: SCB/FSP Equities Management Limited/ Aegis Equities Research/IRESS

All data as at 31 March 2007 unless otherwise specified



Level 6, 33 York Street
Sydney NSW 2000 Australia
Locked Bag 7 Australia Square
Sydney NSW 1215
Phone 61 2 8296 1100
Fax 61 2 9299 3777
ABN 72 085 293 910
www.aer.com.au