

Wednesday, 31 October 2007

## MARKET ANNOUNCEMENT

### Investment Manager's Report - September 2007

The Company is pleased to enclose the September 2007 report from FSP Equities Management Limited (FSP) on the performance of its FSP Equities Leaders' Fund (FSP Fund).

As at 30 September 2007, the Company had a total of \$22.34 million (approximately 80% of the Company's pre tax net assets) invested in the FSP Fund under the management of FSP.

The 12 month net performance of the FSP Fund to 30 September 2007 was 42.6%. The benchmark performance (S&P/ASX 200 Accumulation Index) was 32.4%.

#### About the FSP Fund<sup>1</sup>

Returns To:	1mth	3mths	6mths	1yr	2yrs	3yrs	Since Inception (April 2002)
30/09/2007	(%)	(%)	(%)	(%)	(% p.a.)	(% p.a.)	(% p.a.)
FSP Fund	8.68%	4.99%	15.29%	42.64%	30.44%	30.22%	24.29%
ASX / S&P 200 Accumulation Index	5.57%	5.89%	11.65%	32.40%	23.92%	26.62%	17.83%

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 2007 being 95%.

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 125 holdings as at 30 June 2007. 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

<sup>1</sup> Based on advice received from FSP Equities Management Limited

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

22 October 2007

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

### Fund Performance

We are pleased to report that in the month of September the Fund recorded its strongest monthly gain since August 2003, with a net return of 8.7%. The market recovered quickly from the correction in late July and into August in the context of a robust reporting season, strength in mineral commodity prices and the US Federal Reserve's decision to cut interest rates by 50bp on September 18. From the peak in July to the trough on 17 August the S&P/ASX 200 Accumulation Index fell by 11.6%. However, for the three months to September 30 the Fund produced a positive net return of 5.0%.

**Over the twelve months to September 30 2007 the FSP Equities Leaders Fund produced a net return of 42.6%. For the same period the S&P/ASX 200 Accumulation Index returned 32.4%. The Fund outperformed its benchmark by 10.2% for the year. The September quarter marks the 18<sup>th</sup> consecutive quarter in which the Fund has produced a positive return. The last negative quarter was March 2003.**

### Performance History <sup>†</sup>

	Fund Net Return	Benchmark*	Value Added
<b>1 year to September 30</b>	<b>42.6%</b>	32.4%	<b>10.2%</b>
<b>2 years annualised</b>	<b>30.4%</b>	24.0%	<b>6.5%</b>
<b>3 years annualised</b>	<b>30.2%</b>	26.6%	<b>3.6%</b>
<b>4 years annualised</b>	<b>29.7%</b>	25.1%	<b>4.6%</b>
<b>5 years annualised</b>	<b>28.5%</b>	22.2%	<b>6.3%</b>
<b>Since Inception**</b>	<b>24.3%</b>	17.8%	<b>6.5%</b>

\* S&P/ASX 200 Accumulation Index

\*\* Annualised. Inception date 9 April 2002

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	S&P/ASX 200 Accm	Value Added
<b>2007</b>	3.6	0.2	3.9	4.5	2.7	2.3	-0.2	-3.2	8.7				24.4%	19.3%	5.1%
<b>2006</b>	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%	24.6%	11.3%
<b>2005</b>	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%	22.8%	-7.7%
<b>2004</b>	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%	28.0%	3.2%
<b>2003</b>	-2.2	-6.9	0.4	4.6	-1.8	4.0	7.5	11.2	6.7	6.9	-1.4	5.4	38.3%	14.6%	23.7%
<b>2002</b>				0.7	1.2	-2.2	-4.0	2.6	-4.4	1.1	-0.6	-0.9	-6.5%	-8.1%	1.6%

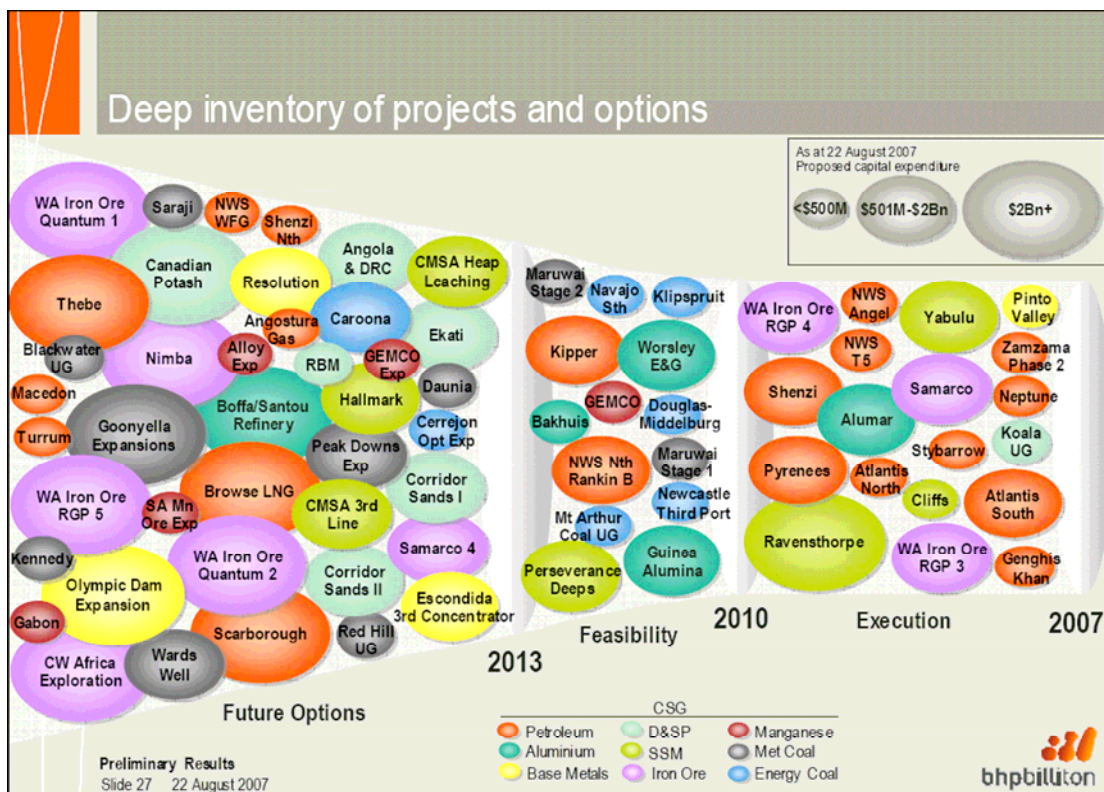
## Market Update

Equity markets were sold down in late July and into August, as the impact of US sub-prime mortgage fallout was reported by global investment banks, and as investors became uncertain about the impact on global growth. While a degree of uncertainty remains, the continuation of positive economic news and the US Federal Reserve decision to cut interest rates by 50bp have encouraged equity markets to resume their upward trend.

Australia's GDP growth outlook has been revised upwards in recent months, with the most recent forecasts anticipating growth of 4.1% in 2007 and 3.5% in 2008<sup>i</sup>. China's growth forecast, as reported by the People's Bank of China, has also been upgraded, to 11.6% from the previous 10.8%. The resilience of the US economy is demonstrated by current forecasts for growth of 2.0% in 2007 and 2.2% in 2008<sup>i</sup>.

The Australian company reporting season saw average earnings per share growth for the 12 months to June 30 come in at a robust 15%, based on Macquarie's analysis. As an indication of the position of Australian financial institutions, Westpac reported in mid-September that the current market conditions have not changed the bank's strong earnings outlook, while Babcock and Brown upgraded their FY07 guidance to net profit growth of 45% at their half year result presentation and highlighted their access to significant debt and equity capital sources. This guidance was expected to be exceeded in the event of a successful equity raising for Babcocks' aircraft warehouse syndicate, which has since been completed.

BHP's result was one of the standouts of the reporting season. They reported a net profit of \$16.3 billion, up 28% on the prior year, which was an Australian record. BHP is our largest holding, representing 17.3% of the Fund as at September 30. The diagram below illustrates a significant reason for our bullish outlook for this stock. The chart shows BHP's pipeline of more than 70 potential future projects, which are balanced by commodity type and location, creating a natural hedge for earnings.



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## FSP Equities Management

ABN 12 098 327 809 AFS Licence No 246790

L39 Australia Square 264-278 George St Sydney NSW 2000

Tel: 02 9253 8500 Fax: 02 9253 8616 Web: [www.fspgroup.com.au](http://www.fspgroup.com.au) Email: [equities@fspgroup.com.au](mailto:equities@fspgroup.com.au)

## A comparison of the Australian and United States share markets in 1987 with the present markets

Having just passed the 20<sup>th</sup> anniversary of the events of 1987, it is of interest to make some comparisons between the current markets and the markets as they were then:

### Australia

1987	2007
From the low of 1982 to October 1987 the Australian All Ordinaries had gained 420%.	The comparable rise from the low of 2002 to the time of writing has been only 136% <sup>ii</sup> .
Over this period the market's trailing PE multiple had expanded from 9.2x to 19.3x.	The market PE has moved in a band between 15x and 17x since mid 2002. In 1999 the multiple was above 20x. <sup>iii</sup>
Corporate earnings growth per annum over the past four years had been 15.5%.	Corporate earnings have grown at 25.0% per annum over the past four years. <sup>iv</sup>
The risk free rate was 13.7%, as measured by the 10 year Government Bond yield. This provides an indication of the value of equity returns, by comparing the earnings yield (or inverse of the PE) which was then 4.5%.	The current 10 year Government Bond yield is 6.2%, which compares to an earnings yield for Australian equities of 6.5%.
The dividend yield of the Australian market was 2.5%, while inflation was running at 8.7%, giving a real dividend yield of -6.2%.	The dividend yield of the Australian market is 3.6%, with inflation running at 2.7%, which gives a return after inflation of 0.9%. <sup>v</sup>
The gearing ratio of non-financial companies had risen to over 100%.	Although debt has increased, corporate balance sheets remain strong with gearing at 69%. <sup>vi</sup>
Share prices were being driven up by speculative developments from entrepreneurs such as Alan Bond, Christopher Skase, Robert Holmes a Court and John Spalvins.	Gains have been underpinned by the demand for resources from China, which has driven growth in resource companies earnings and produced real flow on benefits to other sectors of the economy.

### United States

1987	2007
The trailing PE multiple of the S&P 500 had expanded from 7.4x in 1982 to 19.0x in October 1987.	This market is currently trading on a multiple of 16.3x, down from 24.7x at the start of 2002. <sup>vii</sup>
The risk free rate, as measured by the 10 year Government bond yield, was 10.2%. This compared to the earnings yield for equities of 4.4%.	The 10 year Government bond yield is 4.6%, which compares to the equities earnings yield of 5.6%.
The Federal Funds Rate was 7.25%, and the direction of Federal policy was tightening.	The Federal Funds Rate is 4.75% and the policy direction is easing.

On this basis we continue to view Australian equities as not being overvalued. We remain optimistic about the medium term outlook, notwithstanding month by month volatility.

## Stock Performances

In the year to September 30 2007 the Fund held a number of stocks which produced notable returns. From the blue chip universe of the ASX 200, Challenger Financial Services gained 82%. Their net profit result, which was reported on August 27, up 76% on 2006 and ahead of analyst forecasts, helped the stock's full recovery from falls in July and August. Challenger's earnings have grown with buoyant investment markets and growth in its funds under management. BHP, the Fund's largest holding, with a weighting of 17%, gained 72% over the year. BHP has benefited from recent strength in oil and base metal prices and from the outlook for the current iron ore and coking coal price negotiations. Harvey Norman rose 70% as they reported a headline increase in net profit of 77% on the back of very strong (+21%) revenue growth and improved profitability. Transfield was up 60% for year, on the strong outlook for their recent acquisitions, and as their Flint joint venture begins a circa \$1 billion contract to provide asset management services to Suncor Energy's Canadian oil sands project over the next five years.

Among our non-ASX 200 holdings, both Pluton Resources and Discovery Metals more than doubled over the 12 months to September 30.

### Top 15 Holdings (as at 30 September 2007)

	ASX Code	Stock Name	Weighting	
			Fund %	ASX %
1	BHP	BHP Billiton	17.3%	11.8%
2	WBC	Westpac Banking Corporation	7.1%	4.2%
3	NAB	National Australia Bank	4.5%	5.1%
4	WPL	Woodside Petroleum	3.8%	1.9%
5	BNB	Babcock & Brown	3.3%	0.5%
6	HVN	Harvey Norman	2.8%	0.3%
7	RIO	Rio Group	2.4%	2.4%
8	TSE	Transfield Services	2.4%	0.1%
9	CGJ	Coles Group	2.1%	1.4%
10	BBI	Babcock & Brown Infrastructure	1.9%	0.2%
11	SUN	Suncorp Metway	1.9%	1.5%
12	BXB	Brambles	1.5%	1.5%
13	SRK	Strike Resources	1.4%	-
14	MTS	Metcash	1.3%	0.3%
15	LGL	Lihir Gold	1.2%	0.6%

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.

<sup>†</sup>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.

i Economic and Financial Indicators, *The Economist*, 18 October 2007.

ii IRESS

iii UBS Investment Research

iv Thomson Financial

v UBS Investment Research

vi Reserve Bank of Australia, August 2007 Statement of Monetary Policy. Present figure as at December 2006

vii UBS Investment Research

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