SCARBOROUGH EQUITIES LIMITED

Friday, 25 January 2008

MARKET ANNOUNCEMENT

Investment Manager's December 2007 Quarterly Report

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

About the FSP Fund[1]

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 31 December 2007 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 as at 31 December 2007. The Investment Manager is "style neutral" and invests in growth stocks, value stocks, stocks with maintainable dividend yields and special situations.

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1 Based on advice received from FSP Equities Management Limited

Client Newsletter
FSP Equities Leaders Fund
December 2007

18 January 2008

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Fund Performance

For the twelve months to 31 December 2007 the FSP Australian Equities Leaders Fund returned a net 21.4%. This represented a significant outperformance relative to the Fund's benchmark, the S&P/ASX 200 Accumulation Index, which returned 16.1% over the same period. Returns from Australian equities were attractive in comparison with international markets, as the Dow Jones Industrial Average returned 6.4% over the 12 months, the FTSE 100 was up 3.8% and the Nikkei 225 was down 11.1%.

For the three months to 31 December the FSP Australian Equities Leaders Fund's net return was negative 2.4%, which compared to a return of negative 2.7% for the S&P/ASX 200 Accumulation Index. This has been the first quarter in which the Fund has produced a negative return since March 2003. Prior to this quarter the Fund had produced 18 consecutive quarters of positive returns.

Over the past five years the Fund has produced an annualised return of 28.0% per annum, which compares favourably with the return from the Fund's benchmark of 21.0%, and to the return from global equities of 14.9% per annum, as measured by the Morgan Stanley Capital International World Index.

Between 1 November and the time of writing the Australian market has experienced its second technical correction of the past 12 months, having declined by 15.2%. This has been driven by the impact of the subprime debt crisis in the United States on sentiment for global credit markets and for U.S. and global growth. As a result of these market movements the Australian equity market is now trading on a forward earnings multiple of 13.5x[1]. While the U.S. led developments have reduced expectations for global growth, which is now forecast to be closer to trend in 2008, the Australian economy continues to perform strongly, having expanded by 4.3% over the 12 months to September 30, and current expectations are for the Chinese economy to expand by 10.1% in 2008[2]. Given these considerations and forecasts for corporate earnings to continue to expand in 2008, we view value as beginning to emerge in the Australian market at these levels.

Performance History †

	Fund Net Return	Benchmark*	Value Added
1 year to December 31 2007	21.4%	16.1%	5.3%
2 years annualised	28.3%	20.1%	8.2%
3 years annualised	23.7%	21.0%	2.7%
4 years annualised	25.5%	22.7%	2.8%
5 years annualised	28.0%	21.0%	6.9%
Since Inception**	22.6%	16.4%	6.2%

[1] UBS estimate as at 18 January 2008
[2] *The Economist* poll or Economist Intelligence Unit forecast

* S&P/ASX 200 Accumulation Index **Annualised. Inception date 9 April 2002.

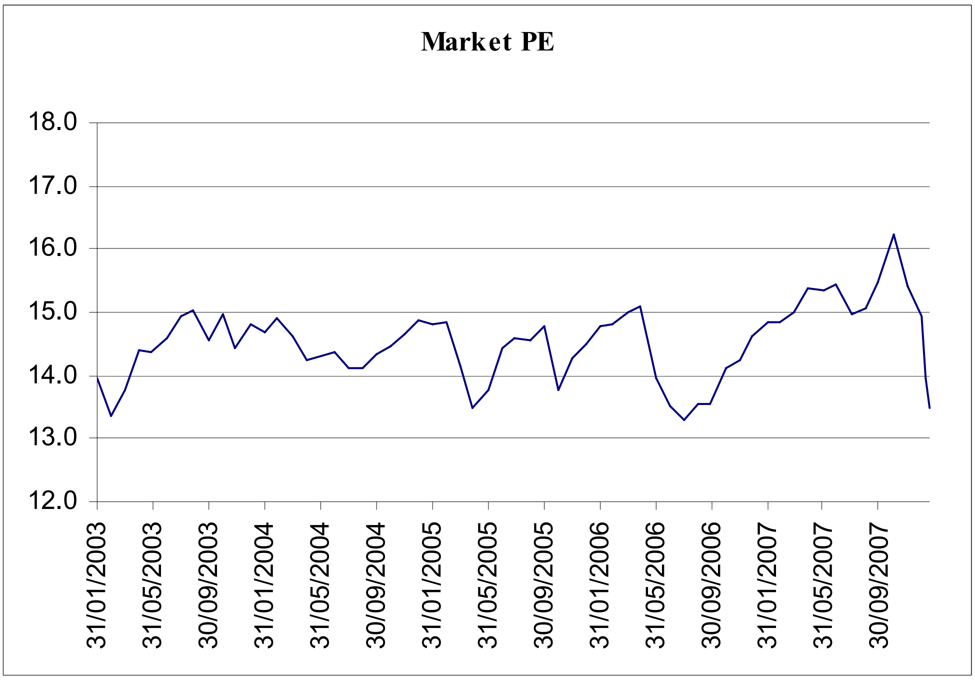
Performance History continued †

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	S&P/ASX 200 Accm	Value Added
2007	3.6	0.2	3.9	4.5	2.7	2.3	-0.2	-3.2	8.7	5.0	-3.7	-3.6	21.4%	16.1%	5.3%
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%	24.6%	11.3%
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%	22.8%	-7.7%
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%	28.0%	3.2%
2003	-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%
2002				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

The Australian economy expanded by 4.3% over the 12 months to September 30 2007, a performance underpinned by the commodities boom which has pushed Australia's terms of trade to record levels and which has driven significant capital investment and consumer spending growth. These themes of capital investment and strong consumer spending are expected to continue to support the economy to above trend growth in 2008. An unfortunate side effect of strong domestic demand is that inflation remains in the upper half of the Reserve Bank's 2-3% target band, which has made the prospect of a further interest rate rise or rises in 2008 more likely. Notwithstanding this, the Australian market PE has now returned to pre-bull market levels, at 13.5x[3], while corporate earnings are expected to deliver reasonable growth over the next 12 months[4].

The chart below shows the forward PE multiple for the Australian market since the start of the bull market in 2003. The multiple is now back to the level of five years ago.

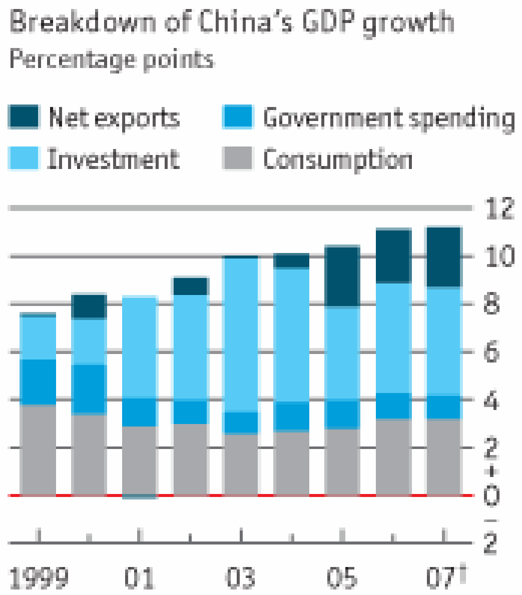


[3] UBS estimate as at 18 January 2008
[4] UBS forecast 8% earnings per share growth for the Australian market in the 12 months to June 30 2008, and 9% for the 12 months to June 30 2009.

Internationally, the United States economy grew by 2.8% over the 12 months to September 30 2007, showing resilience to the crisis that began with the steep fall in house prices from April 2006 and the collapse of sub-prime mortgage backed assets early last year. However, the U.S. economy is expected to slow as the effects of the housing market downturn and credit market angst flow through to domestic demand. Despite comments from the U.S. Federal Reserve Chairman Ben Bernanke and Treasury Secretary Henry Paulson that the economy is likely to experience slow growth in the year ahead, talk of a U.S. recession has become increasingly prevalent, in particular following data released in January which showed that U.S. unemployment rose sharply in December while manufacturing activity declined. The Federal Reserve has pledged "decisive, substantive" action to aid growth, which has raised expectations of an official interest rate cut in January, while the Bush administration will lay out principles for a short-term fiscal stimulus.

The U.S. developments are tied in with slowing euro area growth and are in addition to signs of weakness in Japan, while China's economy remains bullish, supported by strong fixed asset investment. Given that the U.S. accounts for 21% of China's exports[5], a slow down in the U.S. would be expected to have a significant effect on the Chinese economy. However, net exports directly accounted for only 20% of China's economic growth in 2006, while North America made up less than one tenth of this [6]. The Chinese economy remains in a condition of rapid development, with bullish investment in infrastructure and property and growing private consumption. Current expectations are for the Chinese economy to expand by 10.1% in 2008, down from an estimated 11.1% in 2007[7].

The table below shows the contributions to China's GDP growth since 1999, including an estimate for 2007 based on data to September 30:



Source: The Economist, January 3 2008

We expect the unwinding of the housing bubble and credit market crisis to take some time and for the effects on the global economy to continue to be reported through 2008. This is likely to weigh on sentiment in coming months, while we view the domestic equity market as having reached fair value.

[5] The Economist Intelligence Unit, based on data for 2006.
[6] The Economist, *An old Chinese myth,* January 3rd 2008.
[7] The Economist Intelligence Unit.

Stock Performances

From the blue chip universe of the S&P/ASX200 the Fund held a number of stocks which produced notable returns over the 12 months to December 31 2007. Macarthur Coal gained 83% on the outlook for increased volumes and prices in the 2009 financial year in the context of tight global supply and increasing demand. Harvey Norman also rose by more than 80% for the year on profit growth driven by strong demand for electronics and computer products and expanding margins. BHP Billiton, the Fund's largest holding, gained 60% on the back of higher commodity prices (in particular copper, iron ore and coking coal), strong free cashflow and an ongoing $13 billion share buy back program. In November 2007 BHP announced a proposed merger with Rio Tinto. The proposal is at an early stage, however BHP have identified $3.7 billion in annual cost synergies from the deal, while a merger would also be expected to offer significant savings on capital expenditure going forward. The combined entity would be the leading global player in iron ore, coal, copper and aluminium.

Among the Fund's holdings outside the S&P/ASX 200 Index, Pluton Resources, Discovery Metals and Integra Mining each gained more than 200% in the 12 months to December 31 2007.

Top 15 Holdings (as at 31 December 2007)

	ASX Code	Stock Name	Weighting	
			Fund %	ASX %
1	BHP	BHP BILLITON	15.1%	10.8
2	WBC	WESTPAC BANKING CORPORATION	6.8%	4.2
3	WPL	WOODSIDE PETROLEUM	3.7%	1.8
4	RIO	RIO TINTO	3.6%	3.1
5	BNB	BABCOCK & BROWN	3.2%	0.5
6	HVN	HARVEY NORMAN	3.1%	0.3
7	NAB	NATIONAL AUSTRALIA BANK	2.9%	4.9
8	TSE	TRANSFIELD SERVICES	2.4%	0.2
9	WES	WESFARMERS	2.3%	2.3
10	MQG	MACQUARIE GROUP	2.2%	1.7
11	BBI	BABCOCK & BROWN INFRASTRUCTURE	1.7%	0.3
12	SUN	SUNCORP-METWAY	1.5%	1.3
13	IGR	INTEGRA MINING	1.3%	-
14	SRK	STRIKE RESOURCES	1.2%	-
15	MTS	METCASH	1.1%	0.3

Thank you for your ongoing support,

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.