SCARBOROUGH EQUITIES LIMITED

Tuesday, 29 July 2008

MARKET ANNOUNCEMENT

Investment Manager's June 2008 Report

The June 2008 Newsletter from FSP Equities Management Limited (**FSP**) on the performance of its FSP Equities Leaders Fund (**FSP Fund**) is attached.

About The FSP Equities Leaders Fund (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 30 June 2008 being 92%.

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 contained approximately 110 holdings as at 30 June 2008. 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 information provided by the Investment Manager, FSP Equities Management Limited.

Client Newsletter
FSP Equities Leaders Fund
June Quarter 2008

21 July 2008

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

Fund Performance

Over the 12 month period to 30 June 2008 the FSP Equities Leaders Fund recorded a net return of negative 17.6% as equity markets experienced heightened volatility and were sold down globally. The Australian equity market, as measured by the S&P/ASX 200 Accumulation Index, fell 13.4% over the year.

While this has been a tumultuous period, it is important to consider that in the five years to 30 June 2008 the Fund has produced an annualised return of 23.1%. This compares favourably to a 16.2% annualised return for the S&P/ASX 200 Accumulation Index and to the return from global equities of 9.7% as measured by the MSCI World ex-Australia Index. The return for the 12 months to 30 June 2008 followed the June 2007 year in which the Fund returned a net 46.0%, while the June 2006 year return was 25.1%, June 2005 was 24.8% and June 2004 was 50.4%. For the 3 months to 30 June 2008 the Fund's net return was negative 3.3%.

In international markets over the 12 months to 30 June 2008, the Dow Jones Industrial Average was down 14.4% while the S&P 500 fell 12.8%, the FTSE 100 lost 12.9%, the German Dax dropped 20.4%, the Nikkei 225 fell 11.9%, the NZSX50 was down 21.0% and the Shanghai Composite lost 48.0%.

Performance History †

	Fund Net Return	Benchmark*	Value Added
1 year to June 30 2008	-17.6%	-13.4%	-4.2%
2 years annualised	9.7%	5.5%	4.2%
3 years annualised	14.6%	11.4%	3.2%
4 years annualised	17.1%	14.9%	2.2%
5 years annualised	23.1%	16.2%	6.9%
Since Inception**	16.5%	11.9%	4.6%

* 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	ASX 200 Accm	Value Added
2008	-12.3	0.2	-5.4	4.1	0.8	-7.8							-17.6	-13.4	-2.4
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

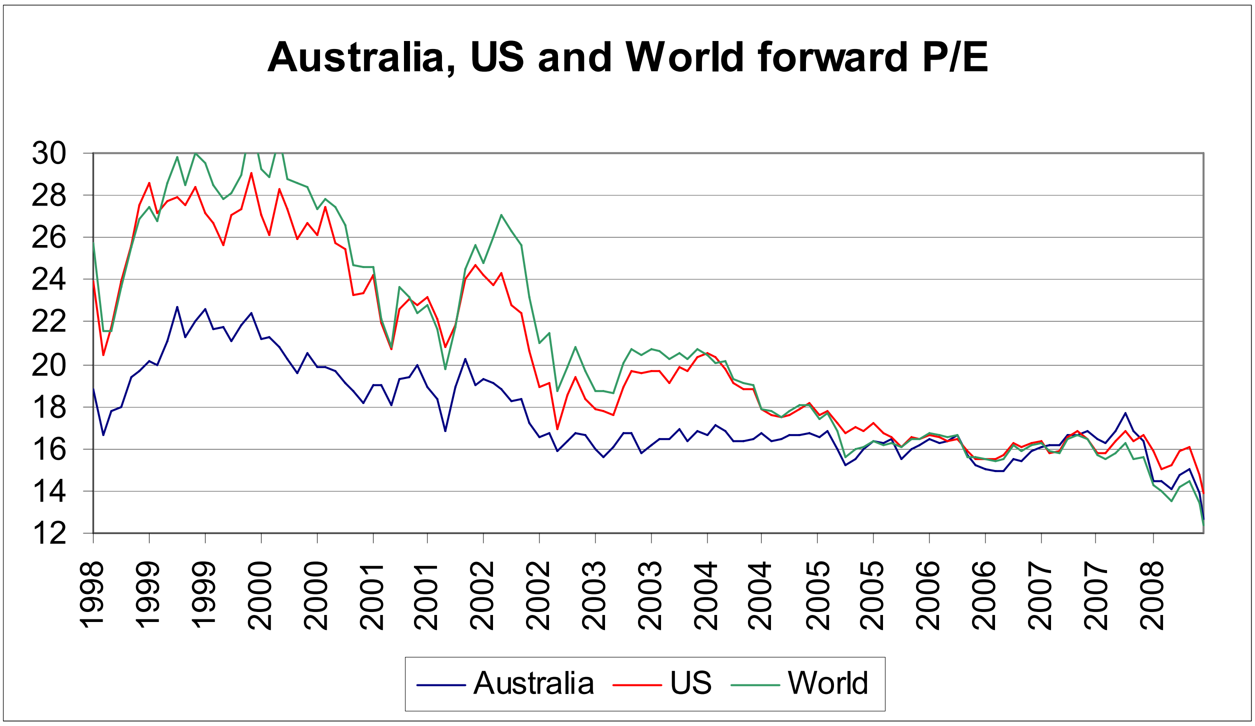
The Australian equity market, in line with global markets, staged a recovery following the March bail out of Bear Stearns and through April and the first half of May, but entered a further period of retraction through June and into July driven by renewed concerns around international financial institutions and evidence of the anticipated slowing of the domestic economy.

As the US Federal Reserve Governor detailed to Congress this month[1], global credit spreads and availability generally improved through the second quarter and a number of financial institutions were able to raise new capital. However, many financial institutions, buffeted by the sharp rise in US mortgage defaults and falls in the value of debt securities, remain under stress. Fannie Mae and Freddie Mac, which together own or guarantee US$5.2 trillion of the US$12 trillion in outstanding US mortgages, faced heavy share price falls on concern over their solvency, prompting a legislative proposal to bolster these firms capital, access to liquidity and regulatory oversight. The cost of insuring against credit default has also increased in recent weeks after a respite post March, while interbank liquidity in Australia has not been affected. It is important to note that Australian banks have little or no exposure to the US regional banks such as Indymac, while they are exposed to any general increase in funding costs. The Australian mortgage market is also in a much stronger position than in the US for a number of reasons including: more conservative lending standards (e.g. lending at deep discount with rate step-ups is less common in Australia); property prices are supported by an undersupply of housing versus oversupply in the US; Australian mortgages are full recourse, and LVRs are comparatively low. Nonetheless these headwinds have weighed on investor sentiment, while declines in developed market house prices and the prospect of persistently high commodity prices continue to impact the global economy.

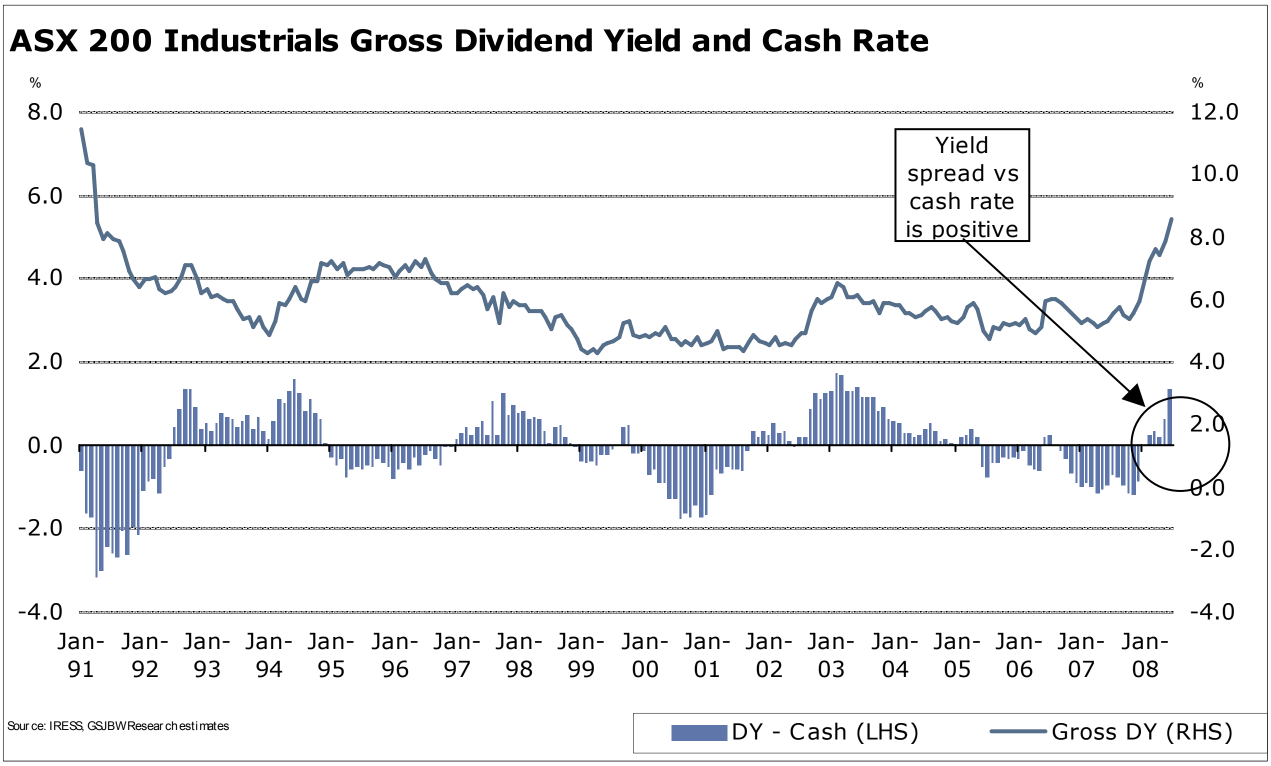
Domestic economic news has been consistent with a slowing of the economy. In particular, retail sales were flat over the first four months of the year, while housing activity has declined and credit growth has slowed markedly. Speaking in Sydney on 16 July, the Reserve Bank Governor Glenn Stevens stated the bank's current expectation for inflation to fall back to 3% by mid 2010 and to continue declining gradually thereafter. Supporting the economy have been tax cuts, implemented from 1 July and expected to add about 1 per cent to household income, and substantial increases to bulk commodity prices, namely coal and iron ore. These price rises are expected to underpin earnings per share growth in the current financial year for the Fund's key holdings of BHP Billiton and Rio Tinto of greater than 60% and 80% respectively[2]. The Reserve Bank's expectation for the gdp growth of Australia's trading partners (weighted by value of trade) has not changed in recent months, with the forecast being for growth of around 4 per cent in both 2008 and 2009. While a slow down from an average of 5 per cent in the past few years, the current forecast is in line with longer-run averages.

While we cannot predict when the market low will occur, current valuations stand out as attractive by historical standards. In particular, the market forward Price to Earnings ratio has reached its lowest level in over 10 years as shown in the first chart below. The second chart shows the forward dividend yield (before tax) of the S&P/ASX 200 Industrials since 1991 and the premium of this yield to the cash rate (note the premium is now positive). The dividend yield is now the highest it has been since 1991 while the premium over the cash rate has only reached its current level once in the past 10 years.

[1] *Semi-annual Monetary Policy Report to Congress,* reported by the Federal Reserve on July 15 2008
[2] ABN AMRO forecast



Source: UBS



Source: GSJBW, IRESS

From a long term investment perspective, the annual Russel/ASX report which was released in May emphasised that Australian shares have been the best performing asset class over both the 10 and 20 year periods to December 31 2007. The annualised after tax return for Australian shares of 10.3% over the 20 year period compares to 9.0% for domestic listed property, 8.5% for domestic residential property, 5.0% for fixed interest and 7.8% before tax for international shares (unhedged). This position is not changed when adjusted for the 6 month period to 30 June 2008.

Stock Performances

Despite broad falls in stock prices, the Fund held a number of stocks which produced notable performances over the 12 months to 30 June 2008. The key holdings of BHP Billiton and Rio Tinto returned 26% and 51% respectively, as these companies benefited from record commodity prices, including the oil price in the case of BHP, which was backed by solid cost control. Both companies recently secured a price rise of over 200% following annual coking coal price negotiations and an overall 85% rise in contract iron ore prices with Asian steel mills, while they are also targeting increased sales on the spot market where prices are currently even higher. Woodside Petroleum also produced an outstanding return, up 51% for the year on the strength in oil and natural gas prices and on the outlook for significant production growth.

Top 15 Holdings (as at 30 June 2008)

	ASX Code	Stock Name	Weighting	
			Fund %	ASX 200 %
1	BHP	BHP BILLITON	19.1	14.0
2	WBC	WESTPAC BANKING CORPORATION	6.0	3.6
3	WPL	WOODSIDE PETROLEUM	5.9	2.9
4	RIO	RIO TINTO	5.1	3.7
5	WES	WESFARMERS	3.1	2.8
6	IPL	INCITEC PIVOT	2.9	1.1
7	LGL	LIHIR GOLD	2.3	0.7
8	MQG	MACQUARIE GROUP	2.1	1.3
9	NCM	NEWCREST MINING	2.1	1.3
10	LYC	LYNAS CORPORATION	1.6	0.1
11	SUN	SUNCORP-METWAY	1.4	1.2
12	HVN	HARVEY NORMAN HOLDINGS	1.3	3.6
13	SRL	STRAITS RESOURCES	1.2	0.1
14	MTS	METCASH	1.2	0.3
15	SRK	STRIKE RESOURCES	1.2	-

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.