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31 March 2008

OPIS CAPITAL

Boutique Equities Funds Management
Vision to see opportuntiy. Freedom to swoop.

Quarterly Investment Review

Credit issues see worst quarter in twenty years

MARKET REVIEW

The local market suffered a poor quarter with a 14.8% drop in the All Ordinaries Accumulation Index ('All Ords'). This is the worst fall since the 1987 crash when the market fell 40.6% in the three months to 31 December 1987. In January, the market fell for 12 consecutive days, its longest losing streak since 1982, culminating in a 7.8% fall on the 12th day. The first quarter of 2008 followed the weak end to calendar 2007 with March being the fifth consecutive month of declines for the All Ords (this last occurred during 1992). The market is now trading 20% below its early November highs.

Once again there was a significant divergence in the performance between the sectors with the All Resources Index down 6.5%, substantially outperforming the All Industrials Index which lost 17.7% overall. The divergence was even more pronounced in the small cap sector where the Small Resources Index fell just 3.5% against the Small Industrials Index which was down 21.8% for the quarter.

There was a smattering of good news with substantial rises in base metal prices supporting the likes of Sims Group and BlueScope Steel, whilst Woodside and Santos benefitted from the surging oil price which closed the quarter at US$105bbl. Non-traded commodities also achieved substantial gains with Brazilian miner Vale negotiating a 65% price rise for iron ore with its Japanese and Chinese steel customers.

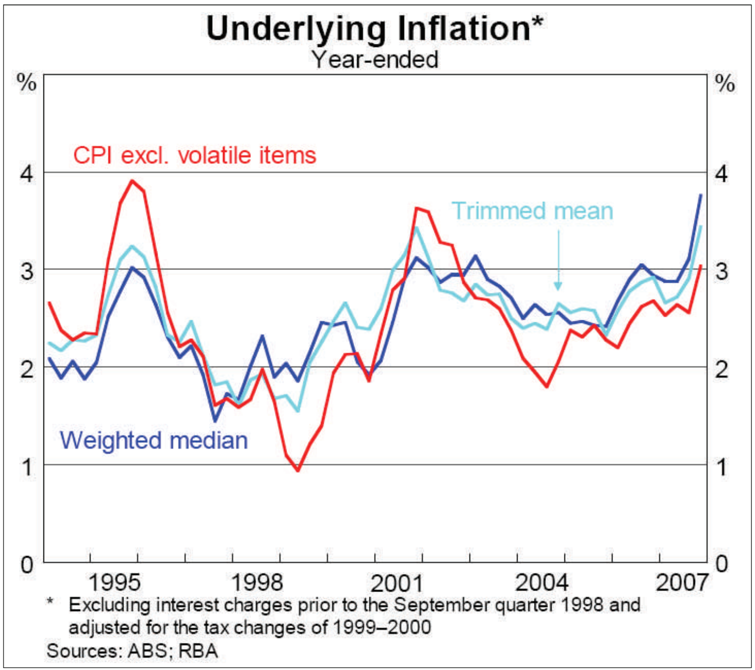
The screens not surprisingly have been more or less red for 2008. The credit crisis has severely impacted investor confidence. It's global economic impact included credit spreads blowing out resulting in higher funding costs which the banks passed onto companies and individuals alike. Property stocks and financial stocks have been particularly hard hit including many 'blue chip' names such as Australian Stock Exchange (-38%), CBA (-29%), Challenger Financial Services (-70%), Macquarie Bank (-31%) and QBE Insurance (-33%).

The RBA's inflation crusade

The Reserve Bank of Australia's (RBA) renewed crusade against inflation, which crept up to an uncomfortably high 3.0% (at the top end of the RBA's targeted inflation band of 2-3%) has not helped domestically. The RBA's response, two 25 basis points rate rises in the quarter, and its explicit directive that the economy needs to slow to curtail inflation has not helped spiraling funding costs, nor investor sentiment. However it is important to note that the bond market has viewed this proactive stance against inflation in a positive light with yields on 10 year government bonds falling from 6.30% to 6.05% this quarter. The other positive, from rising local interest rates, is the RBA's view that the Australian economy (with continued economic growth and full employment) is healthy enough to sustain them, despite some need to moderate growth. This is in sharp contrast to the US where the Federal Reserve has taken proactive steps to try to avert a recession by implementing three significant rate cuts totaling 200 basis points in the past quarter, reducing rates to just 2.25%. With the housing crisis in the US continuing to deepen, we believe that a sustained period of negative economic growth is the most likely scenario in the US.

First half earnings: solid results yet share prices fall

February saw many ASX listed companies' release their first half earnings. Solid results



across the board were in clear contrast to falling share prices, particularly amongst the stocks in the industrials sector. Investor confidence was shattered by a raft of bad news out of the US, including the spread of the sub-prime crisis to other categories of debt and financial instruments, plummeting housing prices and large write downs from a number of iconic financial institutions including Citigroup and Merrill Lynch. This culminated in the US Federal Reserve intervening to help JP Morgan bail out top 5 US investment bank Bear Stearns in a move that many believe averted a major global financial meltdown.

In contrast to this turmoil, interim company results were solid reflecting the underlying strength in the Australian economy. These results were somewhat tempered by cautious outlook statements which led analysts to slightly revise down their profit expectations for the full 2008 financial year. Nevertheless, like many periods of high investor uncertainty, company fundamentals were largely overlooked with retail investors deserting the market and hedge funds aggressively targeting local stocks with high gearing such as Allco, ABC Learning Centres, Transpacific, MFS and Challenger Group. In many instances, short sellers triggered forced selling from company directors, many of whom were not in a position to cover margin calls.

As if there wasn't enough doom and gloom dominating the financial media, investor confidence was further battered by the collapse of the stockbrokers and margin lenders Tricom Group and the unfortunately named, Opes Prime Group.

NOTICE OF CLARIFICATION:

Given recent announcements and events in relation to Opes Prime Group, OPIS Capital Limited confirms that it is an independent legal entity with no common directors nor beneficial ownership between the entities.

The staff and directors are proud of what OPIS Capital Limited has achieved since its inception in 2000 and would like to dispel any confusion that may have arisen due to the similarities in names.

OPIS Capital Limited is a privately owned public company and has been managing two Australian equity funds since December 2000.

FUND REVIEW

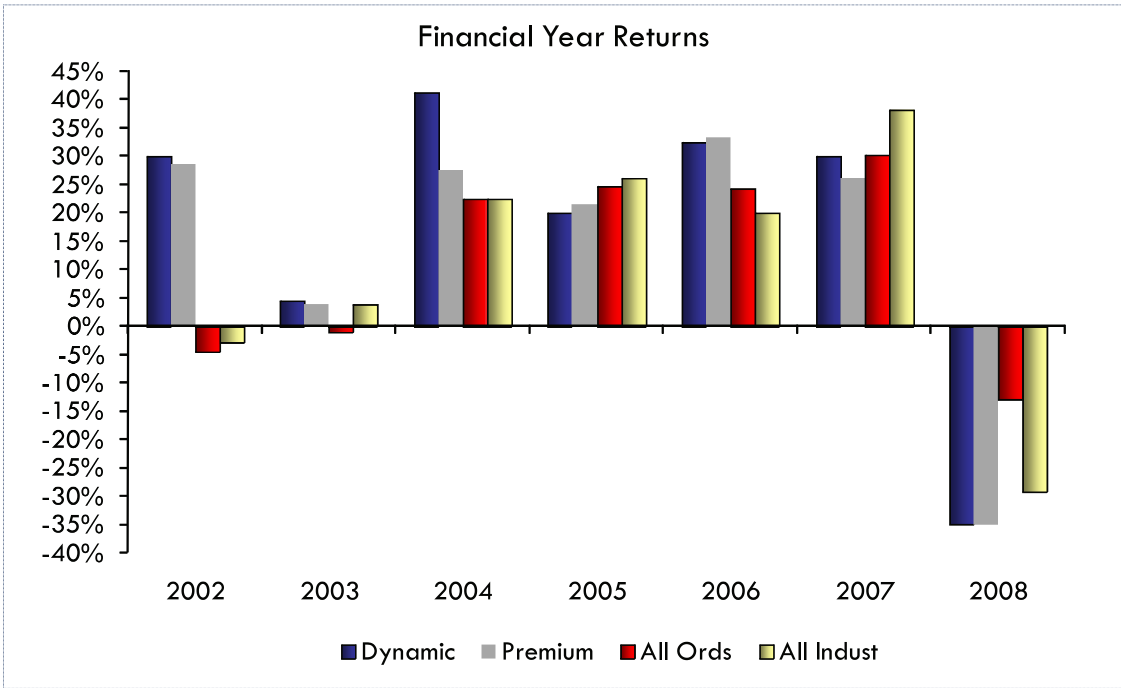
The OPIS Funds have had a very poor quarter, with the Dynamic and Premium Funds falling 32.6% and 31.2% respectively. Some of this poor performance was due to stocks which had issues associated with the global credit crunch, namely MFS and ABC Learning Centres. However much of the negative performance in the quarter has been as a result of bearish sentiment impacting stocks across the board, particularly in the small to mid cap industrial space, where liquidity has dried up and stocks have been sold down on very low volumes. In respect to these holdings OPIS have not panicked and sold out as we remain extremely confident in the underlying fundamentals of the stocks remaining in the Funds and believe that they will bounce strongly once confidence returns to the space.

MFS cut from the Funds

On a stock specific basis the most disappointing investment has been MFS Limited ('MFS') which comprised 4.3% of the Funds at the start of the quarter. Despite continually confirming earnings guidance, the stock crumbled when the company was unable to refinance its short-term debt obligations. The situation went from bad to worse for MFS when the company made an announcement in relation to a demerger of its travel and financial businesses and its proposal to raise fresh equity capital of $550m in very difficult market conditions. On a now infamous conference call, Managing Director Mr Michael King floundered under a weight of questions about the company's debt obligations, many of which had not been properly disclosed to the market. Given the emergence of this new information and the difficulty of raising debt or equity capital in the prevailing market conditions we exited our position in MFS at an average price of $1.30. This resulted in a painful loss amounting to approximately 3.5% of the value of the Funds. The company remains suspended from trading on the ASX with the last trade at $0.99.

Subsequent to the suspension of MFS, significant new information has come to light about the debt position of the company that had not been previously disclosed to our investment team either in the company's financial statements or in the course of discussions with management. As a result, we have decided to join a class action that is being prepared against the company in an effort to recover some of these losses for the Funds.

The contagion surrounding MFS unfortunately spread to the MFS Living and Leisure Trust ('MPY') (recently renamed Living and Leisure Australia ('LLA') which owns a number of aquariums (such as Melbourne and Bangkok) and the Mt Hotham and Falls Creek ski fields. Some of



MPY's debt has been sourced from MFS and the financial issues surrounding its major financier saw the stock fall 48% before being suspended at the same time as MFS.

ABC Learning cut from the Funds

Another disappointing investment in the quarter was ABC Learning Centres ('ABS') which posted a complex first half result that failed to meet market expectations.

OPIS had sold down the Funds' positions in ABS from 4.7% to approximately 1.5% prior to the result having become uneasy with the level of disclosure from the company after a call to the management of ABS's US operations. Immediately after the result, we took the decision to exit the remainder of our position. The extent of the fall intra-quarter cost the Funds approximately 1.8% in performance.

Defying the fundamentals

Many of our core holdings suffered significant share price falls during the quarter despite posting strong first half results and continuing to trade strongly in the first quarter. Whilst this is frustrating, it bodes well for significant share price rebounds once confidence returns to the small to mid cap space.

The most significant negative contributor was HFA Holdings which recently merged with the US based Lighthouse Partners. HFA fell 48% in the quarter due to a combination of "guilt by association" (MFS owned 12% of the business before the stake was sold during January) and market sentiment toward stocks in the financial sector. HFA posted a solid first half earnings result and its funds continued to outperform global benchmarks. Crucially, fund inflows have been strong in the quarter with the HFA and Lighthouse funds seeing net inflows of over $100m. The company upgraded its full year profit guidance to $56m EBITDA despite the weakness in global markets, citing early completion of its merger with Lighthouse Partners as a major contributor. Given the extent of the sell-off and the company's strong fundamentals, we considered this stock an outstanding buying opportunity and increased our exposure.

CSG Group posted a first half profit of $8.1m, up 35% on the same period last year and ahead of analysts expectations. Despite the positive earnings report the share price has found no support from buyers, falling significantly in the quarter (down 47%). We remain extremely upbeat about the outlook for the company which has strong defensive revenue streams and should continue to show strong organic growth in the coming years. Our view was further reiterated after the company announced in March that it was on track to beat prospectus forecasts for the full year by more than 30%. CSG is currently trading on a PE of 8.3 x FY08 earnings and 6.6 x FY09 earnings with fully franked dividend yields of 5.2% and 7.3% respectively. We believe that this is highly undemanding given the significant percentage of recurring income and likely strong EPS growth in coming years.

Sunland posted a first half profit of $59m and confirmed that its gearing was a low 11%. The company's full year guidance of $95m for FY2008 looks extremely conservative and the outlook for 2009 continues to improve with ongoing positive developments from its operations in the UAE, which are no doubt being boosted by the booming oil price.

Seek posted strong first half results above market consensus with a half year profit of $35.6m, up 49% on the previous corresponding period. Given the company's strong underlying growth, and ungeared balance sheet, we remain confident investor interest will return to this high quality business.

Stocks added in weakness

As the Funds have been holding reasonable amounts of cash we have been taking the opportunity, during the periods of market weakness, to add to a number of positions. We added further to HFA, Seek, superannuation administrator Australian Wealth Management and engineering contractor Ausenco.

OUTLOOK

Key lessons learned and action taken

In looking back on the stock specific issues addressed this quarter, a key lesson learned is the danger of relying too heavily on the word of company management, especially those who may be facing operational issues. ABC Learning and MFS were both investments that had served OPIS well over a long period of time and with whom we had developed strong relationships with senior management. In both instances, we feel that we were misled by management on key issues over the past few months: MFS on the debt levels and ABC on the progress of their US operations. Whilst we had reduced our exposure to these stocks coming into the respective disappointing announcements, this is no doubt little comfort for our investors.

What will we change to help prevent similar occurrences in the future?

The simple answer is that we will be far more proactive in selling investments over which there are question marks. Company contact and building a strong relationship with the management of companies in which we invest will remain a core investment tenet at OPIS. We believe that it is necessary to properly understand the functions of a business and its key drivers going forward. No doubt we will be misled in the future; this happens to all investors at some point or another. However we will not be willing to simply reduce our exposure and give management the "benefit of the doubt" when confronted with potential issues. Instead we will exit our positions fully and reinvest back into these stocks only when we are confident that the purported issue is a "non issue" or once it has been fully resolved.

Fundamentals remain positive

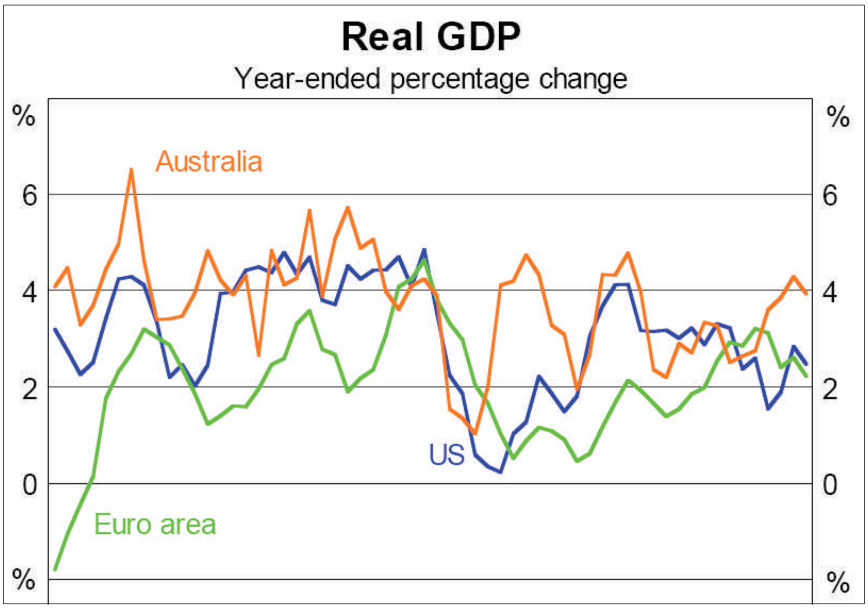
Whilst investors in the Funds will certainly be disappointed by the sharp declines this quarter, we remain confident in the fundamental value of the companies in which we have invested. We make no excuses for the stock specific issues mentioned above and believe that the problem areas of the portfolio have been dealt with in an objective and transparent manner.

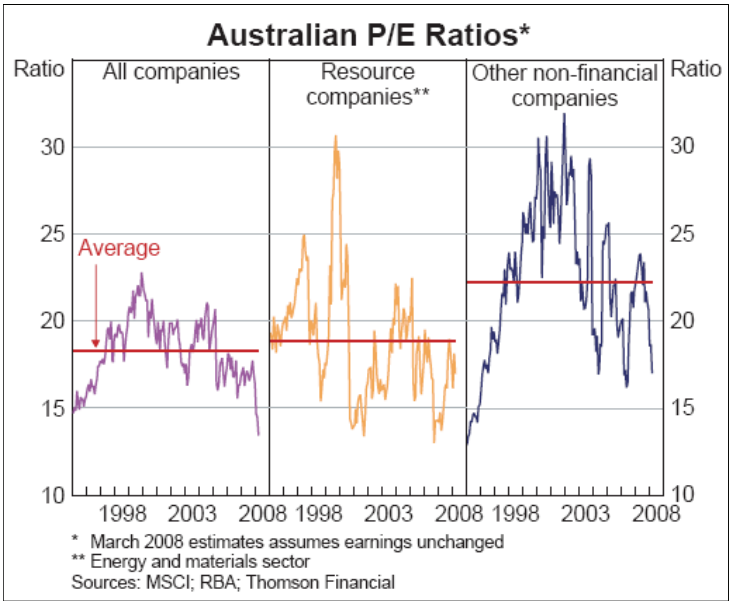
In the last two weeks there have been signs of stabilisation in the marketplace and liquidity is slowly returning. Already a number of stocks in out-of-favour sectors have rebounded strongly from their lows in mid-March and the market overall is 5% above its lows. Furthermore, the RBA decided at its April meeting to keep rates on hold stating:

"As a result of the recent monetary policy decisions and rises in borrowing costs that are occurring independently of changes in the cash rate, the overall tightening in financial conditions since the middle of 2007 has been substantial. That is working to foster the moderation in demand growth that will take pressure off inflation"

Despite the RBA's view that the economy is slowing there is substantial evidence that sectors of economy continue to prosper. In particular, we believe that companies exposed to government, infrastructure and mining services spend will continue to be strong performers. We are continuing to re-weight our portfolio to those sectors that we believe will perform strongly in this environment.

The small industrial space (which is OPIS' pre-





dominant stock universe) has fallen 27% this financial year and a number of stocks are looking extremely oversold. The operational outlook for many companies in this space remains strong and we expect significant rebounds once confidence returns.

Indeed as at the time of writing (8 April) many holdings have bounced back strongly and the Funds have risen over 5% since the end of March.

More than ever we would encourage investors to contact us if they have any questions in respect of the Funds. As investors in the Funds ourselves, we are sharing your disappointment in respect of the recent performance and can assure you that despite the volatile markets we are continuing to take a level-headed approach with our investment process by reducing holdings that disappoint and adding to those that present opportunities. It is obviously too early to call the bottom of the market and the Funds cash weightings of over 20% reflect this caution. We believe that the Funds are well positioned to recover once investors re-focus on the stocks that represent fundamental value.

OPIS maintains its long-term objective of generating 10-15% p.a. for our investors. The Premium and Dynamic Funds have outstanding long-term track records with positive return for each of the past 6 financial years. Despite the poor start to 2008 we remain committed to our investment philosophies and long-term objectives.

FUND HOLDINGS

STOCK	Price	Dynamic	Premium	Mkt Cap
HFA	$0.98	7.0%	7.0%	$495
CSG Limited	$0.98	6.3%	6.3%	$160
Seek	$5.29	5.5%	5.5%	$1,569
Service Stream Limited	$1.60	4.5%	4.7%	$275
Aust Wealth Management	$1.69	4.6%	4.6%	$972
Hastie Group Limited	$3.09	4.5%	4.5%	$459
NRW Holdings	$2.48	4.4%	4.4%	$585
McMillan Shakespere	$3.25	4.2%	4.0%	$222
Ausenco	$13.65	4.1%	3.8%	$1,110
Sunland Group	$2.47	3.8%	3.7%	$852
Reckon	$1.24	3.7%	3.6%	$165
Becton Property Group	$2.20	3.6%	3.5%	$315
Living and Leisure Australia	$0.36	1.8%	2.2%	$65
Octaviar Notes	$74.00		2.2%	$257
Oaks Hotels	$1.10	2.0%	2.0%	$167
Sedgman Limited	$2.18	1.9%	1.9%	$376
VDM	$1.49	2.0%	1.9%	$179
Norfolk Group	$1.40	1.7%	1.6%	$182
Savcor Group Limited	$1.45	1.5%	1.6%	$201
Neptune	$0.60	1.4%	1.4%	$172
Clive Peeters	$0.86	1.4%	1.4%	$112
Coote Industrial	$1.12	0.8%	0.9%	$96
RCR Tomlinson	$1.07	0.5%	0.5%	$135
Orchard Property	$0.45		0.1%	$157
Mineral Resources	$4.75	2.4%		$575
Commquest	$0.55	1.7%		$40
Mesbon China Nylon	$0.35	1.3%		$47
Pipe Networks	$3.62	0.9%		$160
Allomak	$0.37	0.3%		$48
CASH		22.4%	26.6%	
Fund Size		**$93.2m**	**$73.1m**	

FUND STATISTICS

Performance	Dynamic Equity	Premium Equity	All Ords Accum	Small Ords Accum	Small Inds Accum
Current Unit Price	2.1224	1.5642	34554.5	6604.6	6050.3
3 Months	-32.6%	-31.2%	-14.7%	-15.2%	-21.2%
Financial Year	-35.5%	-34.9%	-11.6%	-16.7%	-26.6%
1 Year	-30.5%	-30.2%	-6.0%	-7.6%	-20.3%
3 Years (p.a.)	2.3%	2.4%	14.2%	15.7%	7.6%
5 Years (p.a.)	17.5%	14.5%	18.3%	22.1%	16.2%
7 Years (p.a.)	15.9%	13.5%	12.6%	14.9%	10.4%
Annualised return since incep.	16.0%	14.3%	11.5%	12.7%	8.5%
Fund Size	$93.2m	$73.1m			

MAJOR MOVES	PRICE	CONTRIB
Commquest^	-50.0%	-1.1%
VDM	-41.8%	-1.1%
Aust Wealth	-32.9%	-1.1%
Seek	-33.9%	-1.1%
Living and Leisure	-48.2%	-1.1%
Becton	-42.7%	-1.4%
RCR Tomlinson	-54.1%	-1.7%
Hastie Group Limited	-36.9%	-1.8%
ABC Learning	-73.0%	-1.8%
Sunland Group	-45.0%	-2.2%
CSG Limited	-47.0%	-3.2%
HFA	-48.4%	-3.5%
MFS	-77.5%	-3.5%

^Dynamic only
+Premium only

ADDED or INCREASED	REMOVED or DECREASED
Aust Wealth	ABC Learning Centres
Becton	Alesco
CSG Limited	Aspen Group
HFA	Avastra^
Norfolk	Everest BB Trust+
Seek	Hastie Group Limited
Service Stream	MFS
	Mineral Resources
	Orchard Property+
	RCR Tomlinson
	Retail Food Group^
	Sunland Group
	Timbercorp
	Toll Holdings
	VDM

^Performance has been calculated in accordance with IFSA Standard no. 6.00, Fund Performance-Calculation and Presentation of Returns. Unit prices, and therefore performance figures for periods before 1 July 2004 do not take into account performance fees which were charged against individual accounts at the rate of 20%, If return above a hurdle rate of 15% p.a. subject to a high-water mark. No allowance has been made for taxation. Performance assumes the reinvestment of distributions. Past performance is not a reliable indicator of future performance.

COMPANY CONTACT

FLOATS / PLACEMENTS

Hastie Group

TRADING UPDATES

Ausenco
A.B.C. Learning Centres
Automotive Holdings Group
IMF (Australia)
Aristocrat Leisure
Alesco Corporation
Allomak
Ambition Group
Ansearch
Aspen Group
ASG Group
Australian Wealth Management
AVJennings
Becton Property Group
Bradken
Boom Logistics
Cabcharge Australia
Cardno
Clean Teq Holdings
Count Financial
Clive Peeters
Computershare
Commquest
CSG
Customers
Coote Industrial
Dexion
Every Day Mine Services
Equity Trustees
Flight Centre
Global Construction Services
HFA Holdings
Hastie Group
Housewares International
Hyro
IBA Health Group
Industrea
Ingena Group
Imdex
InvoCare
JB Hi-Fi
Macmahon Holdings
McPherson's
Metgasco
MFS
Mineral Resources
Melbourne IT
McMillan Shakespeare
Monadelphous Group
The Mac Services Group
NIB Holdings
Neptune Marine Services
Nomad Building Solutions
Oaks Hotels & Resorts
Orchard Industrial Property
Port Bouvard
Peet
Prime Financial Group
Platinum Asset Management
PIPE Networks
RCR Tomlinson
Reverse Corp
Reckon
SAI Global
Savcor Group
Sunland Group
Seek
Service Stream
Skilled Group
Saunders International
Style
Tassal Group
Toll Holdings
Tel.Pacific
Talent2 International
United Group
VDM Group
Walter Diversified Services
Wilson Investment Fund
Wotif.com Holdings

SITE VISITS

Ausenco Limited
Becton Property Group
Clive Peeters Limited
Commquest Ltd
CSG Limited
HFA Holdings Limited
Sunland Group Limited

CONFERENCE CALL

Our quarterly conference call discussing the positioning of the Funds and the current outlook for both the market and the Funds will be held at:

9.30am on Wednesday, 30th April 2008

Please contact Opis Capital one week prior for dial-in details and to receive a copy of the presentation, as the conference call will only be available to clients of OPIS Capital.

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