

Colonial First State

Diversified Private Equity Newsletter

September 2006

- The Colonial First State Diversified Private Equity Fund gives investors exposure to unlisted companies across a broad range of industries and business life cycle stages.
- The Fund aims to achieve returns for investors that are 5% p.a. greater than traditional listed investments over its ten-year life.
- It is managed by a team of investment professionals (see details below) and also has the benefit of an Investment Advisory Council (of respected industry participants chaired by Mr Bill Beerworth).

At a glance – as at 30 June 2006

Fund size (four equal instalments – all now received):	\$103.1 million
Cumulative distributions paid to investors since inception to 30 June 2006:	\$71.7 million
Cash available for new and follow-on investments:	\$15.5 million
Cash available for contingent investment commitments (currently undrawn):	\$2.6 million (see note 1 below)
'Later-stage' investments, at cost:	Australian Vinyls – \$11.2 million SG Fleet Services – \$8.1 million Mincom – \$6.2 million Pebble Electronics – \$5.3 million Technisyst – \$4.3 million Endeavour Healthcare – \$2.6 million
'Early Stage' investments, at cost:	AtCor Medical – \$3.2 million
Total portfolio, at cost:	\$40.9 million
Total portfolio, at valuation (audited):	\$50.8 million
Summary position as at 30 June 2006	
Cumulative distributions paid to investors	\$71.7 million
Remaining Net Assets of the Fund	<u>\$68.9 million</u> \$140.6 million

Note 1: This amount relates to the SG Fleet Services investment.

Fund Status and Market Conditions

Two new private equity investments have been purchased for the Fund since March 2006, Pebble Electronics and Goodlife Health Clubs. These transactions are described on the following page, however the Goodlife transaction was completed after 30 June 2006 and is not reflected in the table above. The Fund is now fully invested and the Private Equity Team is focused on building value in its portfolio companies.

Although pricing pressures continue to be very real in the marketplace, these investments were sourced at attractive entry multiples and it is believed that there are strong growth opportunities for both of them.

Cash has been reserved in the Fund to support any minor acquisitions of portfolio companies. There has been a lot of activity in building value in its portfolio companies over the past six months, and the manager anticipates realisation of further portfolio companies in the first half of the 2007 calendar year.

Continuation of positive investment revaluations

Investment performance for the past six months has continued to be positive and, as at 30 June 2006, the portfolio was valued at \$50.8 million. This is \$10 million over its cost base with an upward revaluation of \$2.8 million over the last six months. The next significant distribution is expected to be made on realisation of a portfolio investment.

It should be noted that the major investments in the portfolio, have only been held for short periods and it is believed that there is further growth potential for these transactions. For example, Australian Vinyls, Goodlife and Pebble Electronics had been held less than a year as at 30 June 2006. It is expected with later-stage investments that there will be an improvement in performance over the medium term as they continue development under private equity ownership.

New Investment – Pebble Electronics



Pebble Electronics Pty Ltd ('Pebble') is a leading distributor of Chinese imported colour and high end TV's,

DVD players, household white goods and other electrical products at the 'entry-to-mid' retail price point.

The Fund invested in Pebble in April 2006. Its brands include Conia and Hicon; and products are distributed through leading retailers including Harvey Norman, The Good Guys, Kmart and JB Hi-Fi. Pebble's strong historical growth rates and intention to continue to increase its product range and penetration into leading retailers throughout Australia will provide growth potential for the fund.

Pebble's operations include distribution centres in Victoria, NSW and Queensland, a customer service call centre in Victoria and a sourcing office in Shenzhen, China. Tom Fennell represents the Fund on the Pebble Board.

New Investment – Goodlife Health Clubs



Goodlife Health Clubs is one of the largest Queensland based health club operators with 9 clubs in operation and 2 in the development

stage. In July 2006, the Fund acquired a significant shareholding in Goodlife and agreed to support further expansion. In conjunction with the Fund's investment in the business, a sizeable debt facility has been arranged to fund Goodlife's expansion.

Goodlife has been successfully developed by its owner/operators over several years from acquisitions of existing health clubs and new builds. The founder has a successful track record of establishing new clubs and enjoying strong membership growth and profitability. The business will continue to be driven by the founder as Chief Executive Officer, who will be assisted by the recently appointed Chief Financial Officer.

Since the Fund's investment, Goodlife has acquired an independently-owned club in Balwyn, Victoria which will provide the foundation for the Group's expansion in Victoria. Relationships within the Property and Alternative Investments Group of Colonial First State Global Asset Management should also provide opportunities for Goodlife to expand its portfolio including taking sites in shopping centres, commercial buildings and other property holdings of Colonial First State. Nitin Singhi and Sam Winter represent the Fund on the Goodlife Board.

Existing Investment – Australian Vinyls



Melbourne-based Australian Vinyls Corporation ('AVC') is Australia's only manufacturer of polyvinyl chloride ('PVC') resin and was originally formed as a joint venture between Orica, and PolyOne in 1997. Following a management buyout of the business from Orica in 2002, the business was established as an independent manufacturing operation located in Laverton, Victoria. PVC resin is sold largely to pipe manufacturers, for use in residential, commercial and infrastructure construction. The Fund completed a buyout in partnership with management in July 2005.

AVC was considered an attractive investment for the Fund, with significant barriers to entry, a very strong management team with a proven track record in leveraged buyouts, and long-standing supply relationships. Opportunities for expansion include both development of new products and potential acquisitions of chemical manufacturing businesses.

AVC's performance for the June 2006 half year has been well ahead of the business case on which the Fund invested. With annual revenues of approximately \$250 million, AVC is of sufficient scale for either a sale or IPO to be considered as an exit strategy. Tom Fennell represents the Fund on the AVC Board.

Existing investment – Mincom



Brisbane has been home to Mincom's headquarters since its formation in 1979. Mincom is one of Australia's

largest commercial software and services businesses with over 1,200 employees in 18 different offices internationally. The Fund acquired its original shareholding in October 2002 and has acquired further shares in the June 2006 half year.

Mincom's software enables companies to automate the accounting, human resources management and payroll, materials management, project management, (asset) maintenance management and e-procurement functions. Mincom technology is used in more than 400 customer sites around the world within the mining, oil and gas, utilities, transportation, defence and government industries. Mincom is a recognised industry leader in its chosen markets.

Performance for the financial year ended June 2006 was the best in the history of the company with Mincom recording its highest profit after tax. Richard Matthews, CEO and his management team have significantly transformed the business with licence fee revenue growing by 20% over the previous financial year. Subsequent to the year end Mincom has been awarded the major project for the Australian Defence Force (ADF), where it will in partnership with the ADF develop the world's first deployable, fully integrated, tri-services military logistics solution. This project is valued at over \$100 million for Mincom.

The global nature of the company's operations would indicate a preferred exit strategy via trade sale, although the business is of sufficient size to also consider an IPO. Damian Rigney and Nitin Singhi represent the Fund on the Mincom Board.

Existing investment – SG Fleet Services



FLEETAUSTRALIA Sydney-based SG Fleet Services was established in early 2004 by JSE-listed Super Group Limited, a South African fleet management and automotive supply chain business, which then proceeded to successfully negotiate the acquisition of Commonwealth Bank of Australia's fleet management business. The Fund acquired its shareholding in SG Fleet Services in June 2004.

The former Commonwealth Fleet Lease business (now renamed Fleet Australia) manages approximately 30,000 vehicles in a diverse portfolio, under either lease or long-term management contract. In May 2005, SG Fleet Services acquired SMB Fleet Management, Australia's premier provider of novated lease fleet management services with a fleet of approximately 15,000 vehicles. SG Fleet Services continues to review further acquisition opportunities.

Performance for the year to 30 June 2006 was creditable with the Fleet Australia business having to manage the effects of the depressed state of the used vehicle market very tightly. The Fund's most likely mode of exit from this investment will be through an IPO or a sale to Super Group. Damian Rigney represents the Fund on the SG Fleet Services Board.

Existing investment – Technisyst



Technisyst

Technisyst offers transport technologies including real time passenger information solutions for public transit and end-to-end mobile data solutions for public safety.

The Fund acquired its shareholding in June 2004 and made a further investment of \$500,000 in November 2005 to increase the working capital base.

Technisyst was awarded the prime contractor role on the Victorian Department of Infrastructure 'Melbourne Smartbus' Project. This project uses real-time advanced passenger information system (RAPID) software to enable buses to be tracked, late running buses to receive traffic signal priority, and for passengers to receive up-to-date information about bus arrival times. Technisyst is the owner of the intellectual property rights to RAPID on a worldwide basis and is seeking to market this technology on a global basis. It is also the manager of the fully operational Auckland RAPID project which connects over 700 buses.

The company's public safety wireless data solutions are built to meet the demands of mission-critical environments, where lives are at stake and time is typically of the essence. It is the prime contractor on the NSW Whole of Government Contract Mobile Data Radio Service where 1000 ambulances across NSW are able to be tracked and receive and send data over a 38 base station network.

The performance of Technisyst for the June 2006 half year was encouraging and the business is forecasting a strong result in 2007. The Fund's most likely mode of exit from this investment will be through a secondary buy-out or sale to an industry participant. Nitin Singhi represents the Fund on the Technisyst Board.

AtCor investment – Listed on the Australian Stock Exchange



Sydney-based AtCor Medical (ASX code: ACG) develops and markets the *SphygmoCor* range of cardiovascular diagnostic devices. *SphygmoCor* provide physicians with important data about the condition of the heart and central blood pressures non-invasively with the same accuracy as an invasive catheter placed centrally in the heart. The Fund acquired its initial shareholding in February 2004 and acquired a further stake in October 2005.

Hypertension cannot be controlled with current diagnostic and therapeutic regimens and is a major worldwide health concern, with over 13 million sufferers in the USA alone. *SphygmoCor* has already gained regulatory approval for use in the treatment of Hypertension, in key markets, including the US, Europe and Japan. The device has achieved significant acceptance in the research and clinical trial markets, with over 900 units currently placed in leading cardiovascular clinical research centres in 40 countries worldwide.

AtCor Medical listed on the ASX in November 2005 at an issue price of 50 cents raising \$15 million in new capital for the expansion of the business in the USA. The majority of shares held by the Fund are subject to a voluntary 24 month escrow agreement with the underwriter of the AtCor IPO under which approval of the underwriter is required prior to any disposal. Following the IPO the Fund ceased to have representation on the AtCor Board.

The shares have unfortunately traded below their issue price despite there being no adverse news. Since listing, the business has appointed a president to head the USA team, it continues its work with the Mayo Clinic- which is progressing well, and has recruited its first local European employee. The business objectives are to create USA sales and marketing capability, grow sales worldwide in the research and pharmaceutical markets and drive clinical practice adoption in the USA. The Fund's successful exit from this investment will be dependent on the achievement of these objectives by the company with its current cash resources.

Members of the Private Equity Team

Damian Rigney is the acting Head of Private Equity. The investment team comprises Tom Fennell, and Nitin Singhi (Investment Directors) who have been with the business since 2001. The other members of the team are Sam Winter (Investment Manager), Neil Raffan (Investment Analyst), Wayne Longbottom (CFO) and Melanie Shaw (Team Co-ordinator).

For further information

If you would like further information on your investment in the Diversified Private Equity Fund or know of a business that requires funding, please:

- contact your financial adviser; or
- contact the Investor Service Centre on **13 13 36**; or
- visit the Colonial First State website at www.colonialfirststate.com.au/privateequity

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