

Colonial First State Diversified Private Equity Fund newsletter

March 2007

- The Colonial First State Diversified Private Equity Fund (“the Fund”) invests in unlisted companies across a broad range of industries and business life cycle stages.
- The Fund is fully invested and has provided significant returns to investors.
- The manager will consider further investment realisations as attractive opportunities are presented.

The Fund at a glance – as at 31 December 2006

Total contributions (four equal instalments – all now received):	\$103.1 million
Cumulative distributions paid to investors to 31 December 2006:	\$71.7 million
Cash available for new and follow-on investments:	\$7.5 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 Goodlife Health Clubs – \$10.0 million SG Fleet Services – \$8.1 million Mincom – \$6.2 million Pebble Electronics – \$2.8 million Technisyst – \$4.8 million Endeavour Healthcare – \$1.2 million
‘Early stage’ investments, at cost:	AtCor Medical – \$3.2 million
Total portfolio, at cost:	\$47.5 million
Total portfolio, at valuation:	\$70.9 million
Summary position as at 31 December 2006	
Cumulative distributions paid to investors	\$71.7 million
Remaining Net Assets of the Fund	\$81.0 million
	<u>\$152.7 million</u>

Note 1: This amount relates to the SG Fleet Services investment, released subsequent to 31 December 2006.

Fund status and market conditions

The Fund has performed strongly over the last six months with a successful sale of its holdings in SG Fleet Services. The Fund is also in an advanced stage of selling its holdings in Mincom. The Fund has begun to review the position of the mature assets in the portfolio and is looking to take advantage of current strong mergers and acquisition activity. The team is confident that the mature assets can be sold at an attractive price.

A distribution of \$19 million (18.45 cents per unit) was paid to unitholders in March 2007, comprising the majority of the total return (capital and profits) from SG Fleet Services and a return of capital of \$2.5 million from Pebble Electronics.

With the Fund now fully invested, the manager will set aside commitments to portfolio companies and has reserved some cash in the Fund to support minor acquisitions and expenses.

Colonial First State has decided not to proceed with raising a second private equity fund. However, it will continue to manage the current Fund in accordance with the Fund's strategy. Consistent with this strategy, the remaining investments will be progressively realised as attractive opportunities permit.

Continuation of positive investment revaluations

Investment performance for the past six months has continued to be positive and, as at 31 December 2006, the portfolio was valued at \$70.9 million, being an amount of \$23.4 million over its cost base.

Realisation of 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 successfully negotiated 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 31 December 2006 year-to-date was satisfactory. The Fund has, subsequent to year end, sold its equity holding to Super Group. The sale represents an excellent outcome with a total return of \$13.1 million and an internal rate of return of over 20%.

Existing Investment – Australian Vinyls



Melbourne-based Australian Vinyls Corporation ('AVC') is Australia's only manufacturer of polyvinyl chloride 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 December 2006 year-to-date has performed in line with expectations. The Fund will consider a potential divestment of the business during calendar year 2007.

Existing investment – Endeavour Healthcare



Perth-based Endeavour Healthcare was originally created through the acquisition of a number of general practice, occupational health practices

and pathology businesses across Australia. The business strategy, which was unsuccessful, was to create a meaningful national business in a healthcare industry that was expected to consolidate. The Fund acquired its shareholding in June 2001.

Endeavour has now disposed of its remaining property assets, with the sale of its Beachborough WA property in December 2005. The remaining cash assets of the company will be returned to shareholders, as permitted by the finalisation of its obligations.

Existing investment – Goodlife Health Clubs



Goodlife Health Clubs is one of the largest health club operators on the east coast of Australia. 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, we arranged a sizeable debt facility 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.

Since the Fund's investment, Goodlife has acquired independently-owned clubs in Victoria and NSW. Relationships with the Property and Alternative Investments Group of Colonial First State Global Asset Management continue to develop. The Fund is represented on the Board of Goodlife by Nitin Singhi and Sam Winter.

Performance for the year ending December 2006 has been encouraging and reflects the chain's expansion, through organic growth and acquisitions.

Existing investment – Mincom



Headquartered in Brisbane since its formation in 1979, Mincom is one of Australia's largest commercial software

and services businesses with over 1,100 employees in 17 different offices internationally. The Fund acquired its original shareholding in October 2002 and has acquired further shares since that date.

Mincom's software allows 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 half year ended December 2006 has been well ahead of budget. Richard Matthews, CEO, and his management team have significantly transformed the business with software licence fee revenue growing significantly over the same period in the previous financial year.

Subsequent to the year end, the Mincom board has unanimously recommended the Francisco Partners offer by way of a scheme of arrangement of \$315 million in cash, which equates to \$8.77 per share (after fees and costs), subject to receiving a superior proposal. In the absence of a superior offer, the Fund has decided to vote in favour of the scheme. This is an excellent outcome for the Fund and represents a return of approximately four times the cost of the investment in Mincom. It is expected that proceeds will be distributed in late May.

Existing 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 operations include distribution centres in Victoria, NSW and Queensland, a customer service call centre in Victoria and a sourcing office in Shenzhen, China. The Fund is represented on the Pebble Board by Tom Fennell.

During the second half of 2006, electrical wholesalers continued to face difficult trading conditions. We have negotiated a return of capital of \$2.5m while increasing the Fund's shareholding in Pebble from 35% to 49%. The Fund's remaining investment in Pebble has a cost price of \$2.75 million.

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 initial shareholding in June 2004 and has made further investments of \$1,000,000 in equity funding and short term loans to increase the working capital base.

Technisyst has completed the first stage of 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. The business has entered into a distribution agreement to market this

technology to selected European and South American countries with a multinational technology services company. It is also the manager of the fully operational Auckland RAPID project which operates over 700 buses.

The performance of Technisyst for the year to December 2006 was encouraging and the business is forecasting a reasonable result for the rest of 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. The Fund is represented on the Technisyst Board by Nitin Singhi.

AtCor investment – Listed on the Australian Stock Exchange



Sydney-based AtCor Medical (ASX code: ACG) develops and markets the SphymoCor range of cardiovascular diagnostic devices. The Fund acquired its initial shareholding in February 2004 and acquired a further stake in October 2005.

AtCor Medical listed on the ASX in November 2005 at an issue price of 50 cents raising \$15 million. The majority of shares held by the Fund are subject to an agreement with the underwriter to abstain selling these shares for 24 months from the listing date. Following the IPO the Fund ceased to have representation on the AtCor Board.

The shares have unfortunately continued to trade below their issue price despite there being no adverse news. The business has appointed US-based Duncan Ross as CEO. Mr. Ross brings to AtCor over 23 years of experience in the clinical diagnostics and life sciences device industry. The business objectives are to create a 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), Sam Winter (Investment Manager), 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

You are receiving this newsletter as part of your investment in the Colonial First State Diversified Private Equity Fund. If you no longer wish to receive this update, please contact the Investor Service Centre on **13 13 36**.

Colonial First State recognises the importance of protecting your personal information and we confirm that our processes meet the requirements of the Privacy Act and the National Privacy Principles. Interests in the Colonial First State Diversified Private Equity Fund are offered by Colonial First State Investments Limited ABN 98 002 348 352 AFS Licence 232468. They are not deposits of, nor are they guaranteed by, the Commonwealth Bank of Australia ABN 48 123 123 124, its subsidiaries or any other company. Interests in the Fund are subject to investment and other risks, including possible delays in repayment and the loss of income and principal invested. Past performance is not an indication of future performance. This document provides general information only.