

October 2007

Colonial First State Diversified Private Equity Fund newsletter

- The Colonial First State Diversified Private Equity Fund ('the Fund') has given investors exposure to unlisted companies across a broad range of industries and business life cycle stages.
- The Fund has provided significant returns to investors. The total amount of distributions unitholders have received from their investment in the Fund equals the full return of capital plus 16.5% pa (after fees) as at 30 September 2007.
- The Manager has realised almost all of the investments made by the Fund and the Fund has a single portfolio asset remaining.

Colonial First State will continue to manage this Fund however we anticipate that we will sell out of the Fund's last remaining asset, Endeavour Healthcare, by the end of the year.

This means that the Fund may close earlier than its scheduled closure in 2011. We will keep you informed of the Fund's investment activity and will let you know of future developments as they happen.

The Fund at a glance – as at 30 June 2007 and 30 September 2007

	30 June 2007 ¹	30 September 2007 ²
Total contributions (four equal instalments – all now received):	\$103.1 million	\$103.1 million
Cumulative distributions paid to investors	\$121.5 million	\$162.2 million
Cash and receivables available:	\$5.0 million	\$2.2 million
'Later stage' investments, at cost:		
Australian Vinyls – \$11.2 million	Held	Realised
Goodlife Health Clubs – \$10.0 million	Held	Realised
Mincom – \$6.2 million	Realised	
Pebble Electronics – \$2.8 million	Realised	
Technisyst – \$4.8 million	Realised	
Endeavour Healthcare – \$1.2 million	Held	Held
'Early stage' investments, at cost:		
AtCor Medical – \$3.2 million	Held	Realised
Total portfolio, at cost:	\$25.7 million	\$1.2 million
Total portfolio, at valuation:	\$55.3 million	\$0.2 million
Summary position		
Cumulative distributions paid to investors	\$121.5 million	\$162.2 million
Once only performance fee and 80/20 split ³	\$15.6 million	\$16.8 million
Remaining net assets of the Fund ⁴	\$43.3 million	\$1.9 million
	\$180.4 million	\$180.9 million

1 Based on audited results as at 30 June 2007.

2 Based on unaudited results as at 30 September 2007.

3 The estimated amount of fees payable to the Manager as at 30 June 2007. The fees paid to the Manager as at 30 September 2007 and estimated to be payable to the Manager from the remaining net assets of the Fund.

4 The remaining net assets after taking into account the fees set out in note 3 above and an estimate of further payments as per the 80/20 split but before administration expenses.

Fund status and distributions to investors

The Fund has performed strongly over the six months to 30 September 2007 with successful realisation of its holdings in Mincom, Australian Vinyls Corporation and Goodlife Health Clubs. There was strong demand for these assets during the last six months as a result of strong equity and debt market conditions.

The Fund was also able to realise its holding in Technisyst for a full return of capital and able to dispose of its stakes in AtCor Medical and Pebble Electronics.

Since 31 December 2006, the following distributions have been made to unitholders:

Period	Amount	Investment Realisations
March 2007	\$19.0 million (18.45 cents per unit)	Majority of total return (capital and profits) from SG Fleet Services and return of capital of \$2.5 million from Pebble Electronics
May 2007	\$24.7 million (24.06 cents per unit)	Sale of Mincom (capital and profit)
June 2007	\$5.9 million (5.8 cents per unit)	Return of capital invested in Technisyst and disposal of remaining shareholding in Pebble Electronics
Early September 2007	\$22.6 million (21.98 cents per unit)	Return of capital and profits from the sale of Australian Vinyls Corporation (after the payment of the once only performance fee)
Late September 2007	\$18.2 million (17.63 cents per unit)	Return of capital and profit from the sale of Goodlife Health Clubs and realisation of the shareholding in AtCor Medical

Continuation of positive investment revaluations

Investment performance for the six months to 30 June 2007 was positive and, as at 30 June 2007, the portfolio was valued at \$55.3 million, being an amount of \$29.6 million over its cost base. A substantial proportion of this increase in value was realised by the Fund in the quarter ended 30 September 2007.

Colonial First State's performance fee and share of the distribution

The Prospectus outlined that once investors received their total investment amount (net of entry fees) back in distributions plus a return of 8% pa (the preferred return), the Manager would receive a once-only performance fee equivalent to 25% of the preferred return. This once-only fee was deducted from the proceeds of the sale of Australian Vinyls as part of the distribution to investors in early September 2007.

The Prospectus also outlined that once investors received their total investment amount (net of entry fees) back in distributions plus the preferred return, and after the payment of the once-only performance fee, any further moneys the Fund distributed would be split between investors and Colonial First State on an 80/20 basis. Colonial First State's 20% entitlement was deducted from the proceeds of the sale of Goodlife Health Clubs as part of the distribution to investors.

Realisation of 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.

The Fund successfully sold its entire investment in AVC in September 2007 to CSBP Limited, a subsidiary of Wesfarmers Limited which operates chemical businesses as part of the total sale of AVC for \$137 million. The Fund sold its stake for the sum of \$37.2 million, representing a profit of \$26 million and a total return including capital in excess of three times its original investment. The Fund was represented on the AVC board by Tom Fennell.

Realisation of 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, the Manager 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. Over the past 12 months Goodlife successfully continued its development program for new clubs and acquired 6 clubs along the east coast of Australia.

The Fund successfully sold its entire investment in Goodlife Health Clubs in September 2007 to the ASX listed Macquarie Leisure Trust Group (MLE) in a transaction that valued the business at \$60 million. The Fund sold its stake for \$17.8 million representing a profit of \$7.8 million. MLE has investments in bowling centres and other leisure assets throughout Australia and United States and will seek to obtain significant strategic benefits from the acquisition. The Fund was represented on the Board of Goodlife by Nitin Singhi and Sam Winter.

Realisation of investment – Mincom



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 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.

The Fund successfully sold its entire investment in May 2007 to Francisco Partners, a US private equity firm focussing on global technology businesses, by way of a scheme of arrangement in an offer for the company of \$315 million in cash, which equated to \$8.77 per share (after fees and costs). The transaction was unanimously recommended by the Board of Mincom. This was an excellent outcome for the Fund with a total return of \$23.7 million and represented a return of approximately four times the original purchase price. The Fund was represented on the board of Mincom by Damian Rigney and Nitin Singhi.

Realisation of 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.

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.

The Fund initially invested in Technisyst in July 2004. During the latter period of investment it became clear that the business would benefit from being part of a larger technology group.

The Fund sold its entire investment in June 2007 to Sigtec Group, an Australian mobile computing solutions business for a return of its total investment in Technisyst. The Fund was represented on the board of Technisyst by Nitin Singhi.

Realisation of investments – AtCor Medical



Sydney-based AtCor Medical (ASX code: ACG) is an early stage medical device company that develops and markets the SphygmoCor 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. Following the IPO the Fund ceased to have representation on the AtCor Board.

The shares have unfortunately continued to trade below their issue price and there has been limited liquidity in the shares. The Fund exited from this investment by obtaining a release from voluntary escrow with the IPO underwriter and placing the shares with Australian and US investors. The Fund disposed of its stake for a loss of \$2.4 million on its original investment.

Realisation of investment – Pebble Electronics



Pebble Electronics Pty Ltd ('Pebble') is a 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. The Fund was represented on the Pebble Board by Tom Fennell.

Mid sized and smaller electrical wholesalers continued to face difficult trading conditions and the Fund negotiated a return of capital in March 2007 of \$2.5 million. The Fund disposed of its remaining shareholding in Pebble to the original founders of the business in June 2007 for a total loss of \$1.75 million on the investment.

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 disposed of all of its operational assets and the remaining cash assets of the company will be returned to shareholders, as permitted by the finalisation of its obligations.

Further information

If you would like further information on your investment in the Diversified Private Equity Fund please contact your financial adviser or Investor Services on 13 13 36 or visit the Colonial First State website www.cfsgam.com.au/PrivateEquity

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