

THE UNIVERSITY OF MELBOURNE

UNIVERSITAS 21 GLOBAL PTE LTD DUE DILIGENCE COMMITTEE

REPORT TO COUNCIL (Meeting of 14 November 2005)

On 4 October 2004, Council appointed a group to advise the Vice-Chancellor concerning proposals for further funding for Universitas 21 Global. It was also intended that the Group would make recommendations to Council on the desirability of the University contributing further funds.

The Committee comprises Ian Renard (Chair), Professor Glyn Davis, Evan Thornley, Ben Lochtenberg, David White, Elizabeth Alexander, Professor and Loane Skene with Ian Marshman in attendance and Maureen O'Keefe Executive Officer to the Committee. The Committee has now met three times in 2005, following a previous meeting in December 2004 at which it was recommended to Council (which was subsequently approved) to increase the University of Melbourne's shareholdings in U21 Equity Ltd, for the purpose of investment in Universitas 21 Global Pte Ltd, to 9,488,599 shares (all purchased at a subscription price of US\$1 each). The University of Melbourne's shareholdings, as at November 2005, represent 33.31% of the total U21 investment, and 16.66% of the total shareholdings in Universitas 21 Global (a joint venture between Universitas 21 and the Thomson Corporation).

At its meeting on 12 October 2005, the U21 Global Council Due Diligence Committee determined, on Council's behalf, the position University of Melbourne representatives should take at the U21 Equity Ltd meeting held on 7-8 November in Hong Kong in relation to the third call for equity funding from the Board of U21G for US\$26M. The Chair resolved that the Board of U21 Equity Ltd could be informed on 7-8 November in Hong Kong that the University of Melbourne was likely to subscribe for its full allocation of shares, a total of 4,330,300 at a purchase price of US\$1.00 each. It was noted that a formal proposal would be considered by Council at its meeting on 14 November 2005.

At the Due Diligence Committee meeting on 11 November, members were provided with briefing papers and a verbal report and commentary regarding the meeting of U21 Equity Ltd held in Hong Kong on 7-8 November 2005.

The following papers were viewed by the Group as particularly important;

- Formal notes of the U21 Equity Ltd meeting held in Hong Kong, 7-8 November 2005 prepared by Maureen O'Keefe, including an update on U21G performance for quarter 3, 2005 and an updated BCG evaluation of market potential and business plan;
- 'Offering Memorandum' from the Board of Universitas 21 Global seeking further investment;
- 'Case for Further Investment in U21G Pte Ltd', prepared by U21 Managers Sub-Committee (Douglas Porter University of Queensland, Michael Clarke, University of Birmingham, Douglas Tallack, University of Nottingham, Maureen O'Keefe, U21 Equity Ltd); and
- Advice from Professor Sir Colin Campbell, Chair, U21 Equity Ltd regarding legal options for joint programs between U21 universities and U21G.

It was also noted that at its 12 October 2005 meeting, the Council Due Diligence Committee supported the proposed new business model for U21 Global Pte Ltd and reached the conclusion that further investment in U21 Global Pte Ltd could be justified on the following grounds:

1. if it enhances the University's exposure in, and access to, identified markets for the purpose of international student recruitment;
2. if it can be demonstrated that U21 Global's expertise and capabilities in online teaching and learning can be used by the University to improve the quality and quantity of our own online offerings;
3. if the University can internally gain support from faculties/schools, particularly in the business area in the first instance, for the development of jointly badged or blended degrees and other collaborative programs.

It was stressed that further investment was only worth considering if it could be demonstrated that the University of Melbourne was prepared to engaged more fully with U21 Global in supporting the proposed new business model which was based on greater support and collaboration with U21 universities.

Verbal Report and Commentary of Hong Kong Meeting of U21 Equity Ltd Directors

Professor Glyn Davis, Vice-Chancellor and Ian Marshman, Senior Vice-Principal, made the following points:

- Shanghai Jiao Tong have formally joined U21 and was an active participant in proceedings. Its President has encouraged Global to explore a joint program in China which promotes as joint partners with an established Chinese provider with one or more U21 member institutions rather than Global itself. Although there are a lot of politics still to go, this active encouragement by Shanghai Jiao Tong in the joint venture is encouraging.
- Some real progress has been made in India with Indian Institute of Management (Bangalore) now reportedly keen to collaborate with Global on development and delivery of Diploma and Masters programs aimed at management improvement in the vast number of family-owned small and medium enterprises. Senior Global staff are confident of having approval in place by end of 2005. These programs would be a precursor to collaboration on an on-line MBA. In addition, there is a real prospect of Delhi University being willing to become a member of U21. It has a well-recognised business school and some 200,000 distance-education students for whom on-line learning would be of immediate benefit.
- Global has made important progress in securing recognized international accreditation. In October it was awarded the Certification in E-Learning (CEL) by the European Foundation for Management Development. This will go some way to bridging the "accreditation gap".
- The significance of becoming a U21 joint partner (especially for Melbourne) is demonstrated by the discussion in Global's prospectus on joint programs and the financial returns to those U21 members willing to collaborate with Global on this area. This was not an aspect that was lost on other U21 Presidents.

- Equity received informal advice on two valuations of Global. BCG valued the business at US\$ 57 million, based on its Low Side scenario (US\$ 167m on the High Side). This valuation has been tested by Global management and Thomson's financial people. KPMG were engaged to provide an independent valuation over the past week. They have valued it at somewhere within the range of US\$ 41 million to US\$ 144 million, having discounted the BCG valuation by 11.5% and have not included any assessment of the value of IP created by Global. Formal advice on the KPMG valuation is expected this week. Although the valuations are not precise they suggest the funding provided to date by the two joint venture partners still retains most of its original value.
- Although no formal indication of funding support was requested of U21 Presidents at the Equity meeting a subsequent straw poll of U21 Managers suggested that US\$ 10-11 million at least seems achievable. (Noting that most U21 members will "recoup" their further investment through royalty earnings over 2006-2010.)
- Thomson have emphatically re-affirmed that it is willing to match the U21 Equity contribution but will not exceed it.

Ian Renard commented that during his recent visit to the U21G offices in Singapore he had been very impressed by the quality of the staff and the quality of the programs and support provided to students. Ian Renard added that U21G were disappointed further progress had not been made to date with the development of joint programs with faculties at the University of Melbourne.

Members of the Due Diligence Committee noted:

- the importance of the India and China markets to the U21G revised business plan and the need for selecting high quality partners;
- the need for the University of Melbourne to develop joint programs with U21G in order to benefit from potential direct revenue streams and to leverage off its equity investment – providing capital to build up the company for others to benefit from was not a strategic use of funds;
- although faculties had been very slow in making decisions regarding the development of joint programs, the Vice-Chancellor, Professor Davis, was committed to finding a solution in the near future;
- that it was important for U21G to be part of the strategic intent of the University to ensure its success; and
- the University of Melbourne needs to be in the online learning space in order to stay competitive into the future (for academic reasons, not just financial reasons) and currently has limited internal capability for doing so – this could be readily dealt with through greater engagement with U21G.

Recommendations to Council

The U21G Council Due Diligence Committee recommends to Council that:

- the University subscribe before 1 December 2005 for its full allocation of 4,330,300 shares in U21 Equity Ltd, at a purchase price of US\$1.00 each (which will result in total shareholdings of 13,818,800 shares purchased at US\$1.00 each). As the shares are allocated on a pre-emptive basis, the University of Melbourne's percentage shareholdings will remain at 33.31% of Universitas 21's investments and 16.66 % of the total shareholdings;
- that the above subscription be on the basis that subscription for shares in Universitas 21 Global Pte Ltd would be in two tranches, with payment of the second tranche from U21 Equity Ltd of US\$6.5M to be conditional upon the Chair of U21 Equity Ltd being satisfied that agreed funding milestones for Universitas 21 Global had been met.

If all of the available shares in U21 Equity Ltd have not been subscribed for by 1 December 2005, and there is a shortfall in funds raised, then further consideration may be given by the Council Due Diligence Committee as to whether a recommendation should be made to the December Council meeting to apply for additional shares.

Ian Renard
Chair, U21 Global Due Diligence Committee
11 November 2005