

CPH Investment Corp / Challenger International Limited

12 May 2003

CPH Investment Corp / Challenger International Limited

- ◆ Chris Cuffe
 - Acting CEO, Challenger
- ◆ Steve Gilsenan
 - CFO, Challenger
- ◆ Geoff Walker
 - Head of Capital & Risk Management, Challenger
- ◆ Tanya Atkins
 - Head of Shareholder & Media Relations, Challenger

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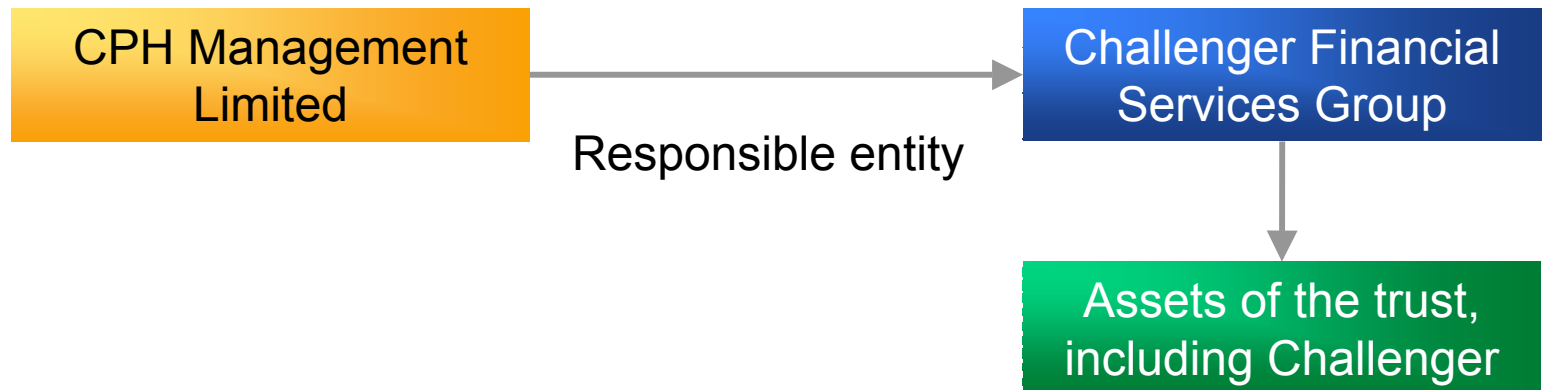
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The merger

SECTION 1

The merger

- ◆ Merger of CPH Investment Corp and Challenger International Limited
- ◆ CPH Investment Corp to be renamed “Challenger Financial Services Group”



- ◆ Merger highlights
 - Greater access to capital for Challenger
 - Focus on core annuity and funds management businesses
 - Strategy will build on existing core business, building funds management operations to accelerate growth
 - An equitable structure

Challenger Financial Services Group

New board of CPH Management

- ◆ James Packer—Chairman
- ◆ Chris Cuffe—Managing Director and CEO
- ◆ Ashok Jacob
- ◆ James Service—current Challenger director
- ◆ Brenda Shanahan—current Challenger director
- ◆ Russell Hooper
- ◆ Peter Polson
- ◆ Michael Tilley

Challenger Financial Services Group

New management team

- ◆ Chris Cuffe—Chief Executive Officer
- ◆ Tim Foster—Chief Financial Officer
- ◆ Geoff Walker—Head of Capital & Risk Management
- ◆ Brian Benari—GM Investments
- ◆ TBA—GM Distribution & Product Strategy
- ◆ Derek Goh—GM Information Technology
- ◆ Hayden King—GM Administration & Operations
- ◆ Joanna Wagstaff—GM Marketing & Communications
- ◆ Steve Rowe—GM Human Resources Development
- ◆ Tanya Atkins—Head of Shareholder & Media Relations

Independent experts' findings

Challenger

- ◆ Grant Samuel
 - Merger in the best interest of Challenger shareholders, noteholders and optionholders, in the absence of a superior proposal
 - exchange ratio is “equitable”

CPHIC

- ◆ KPMG
 - Share and Note Proposals fair and reasonable, having regard to the interest of non-associated unitholders

Benefits of the merger

Challenger

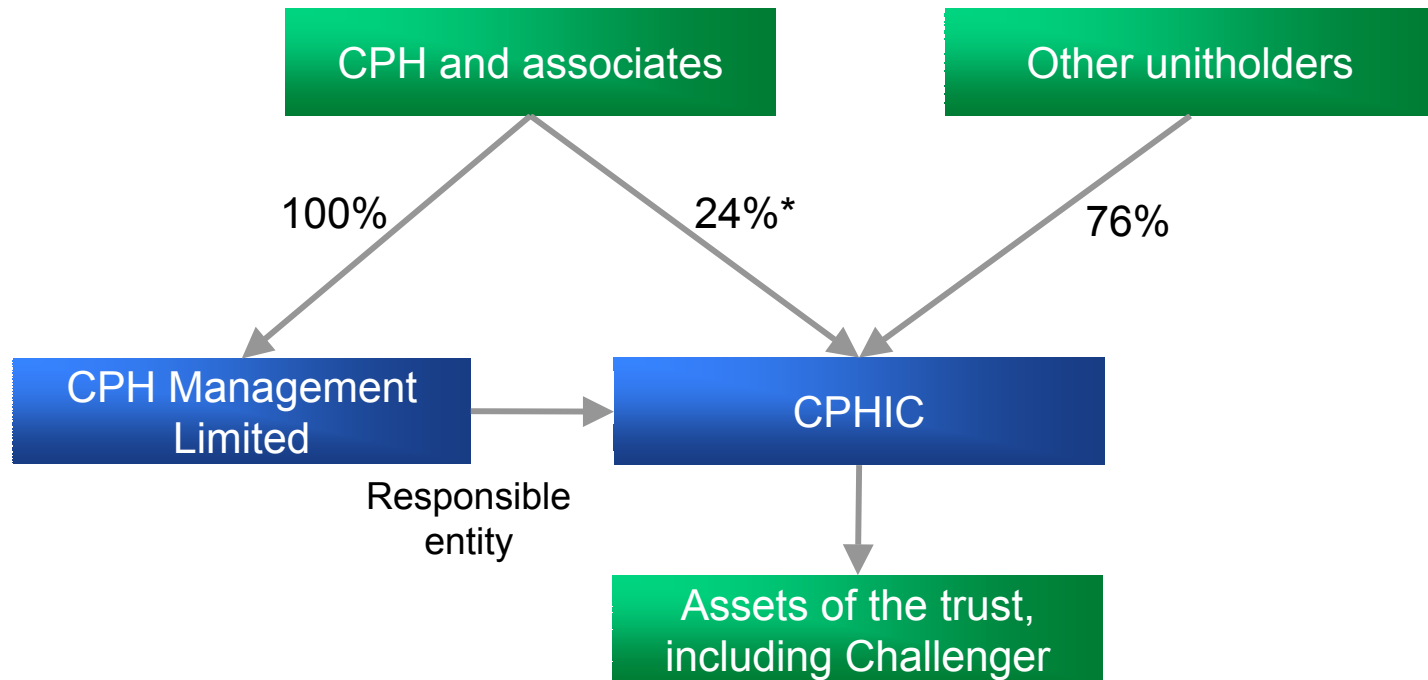
- ◆ Access to greater capital resources
 - CPHIC to inject \$235m into CLL2 statutory fund
 - improved quality of regulatory capital
- ◆ Participation in future growth of merged entity
- ◆ Independent expert has stated Challenger's business will have a greater value as part of the merged entity, more than offsetting the capitalised value of management fees

CPHIC

- ◆ Challenger provides platform for growth
 - leading provider of long term annuities
- ◆ Access to growth areas of funds management and retirement services
- ◆ Significant property portfolio
 - participate in future capital growth
- ◆ Market related benefits (potential index inclusion)

Ownership structure post-merger

- ◆ Following implementation of the Share Scheme only



* If all Schemes take effect and all Challenger Notes are transferred to CPH Management on the Effective date this will be approximately 25 per cent



Overview of CPH Investment Corp

SECTION 2

Overview of CPHIC

- ◆ A listed managed investment scheme
- ◆ Portfolio of listed and unlisted assets
- ◆ Intend to retain private equity investments
 - but in the short term do not intend to significantly expand other than through increasing position in existing investments

Asset (as at 31 Dec 2002)	Book value (\$m)	Activities
Cash	323.6	
Fixed interest	60.5	
Listed equities	28.2	
Unlisted investments:		
Jurlique	26.8	Natural skin, hair and body care products
Endeavour Health Care	17.8	Integrated healthcare (GPs, pathology and occupational health)
Australian Vinyls Corp	15.4	Manufacturer of PVC resin
Australian Fast Foods	9.1	Red Rooster and Chicken Treat
Other	<u>7.9</u>	
Total unlisted investments	77.0	
Total	489.4	

CPH Investment Corp

A listed managed investment scheme

- ◆ Responsible entity—CPH Management
 - management and trustee responsibilities

- ◆ Disclosure requirements
 - all ASX and ASIC requirements (annual report, half yearly report, continuous disclosure)

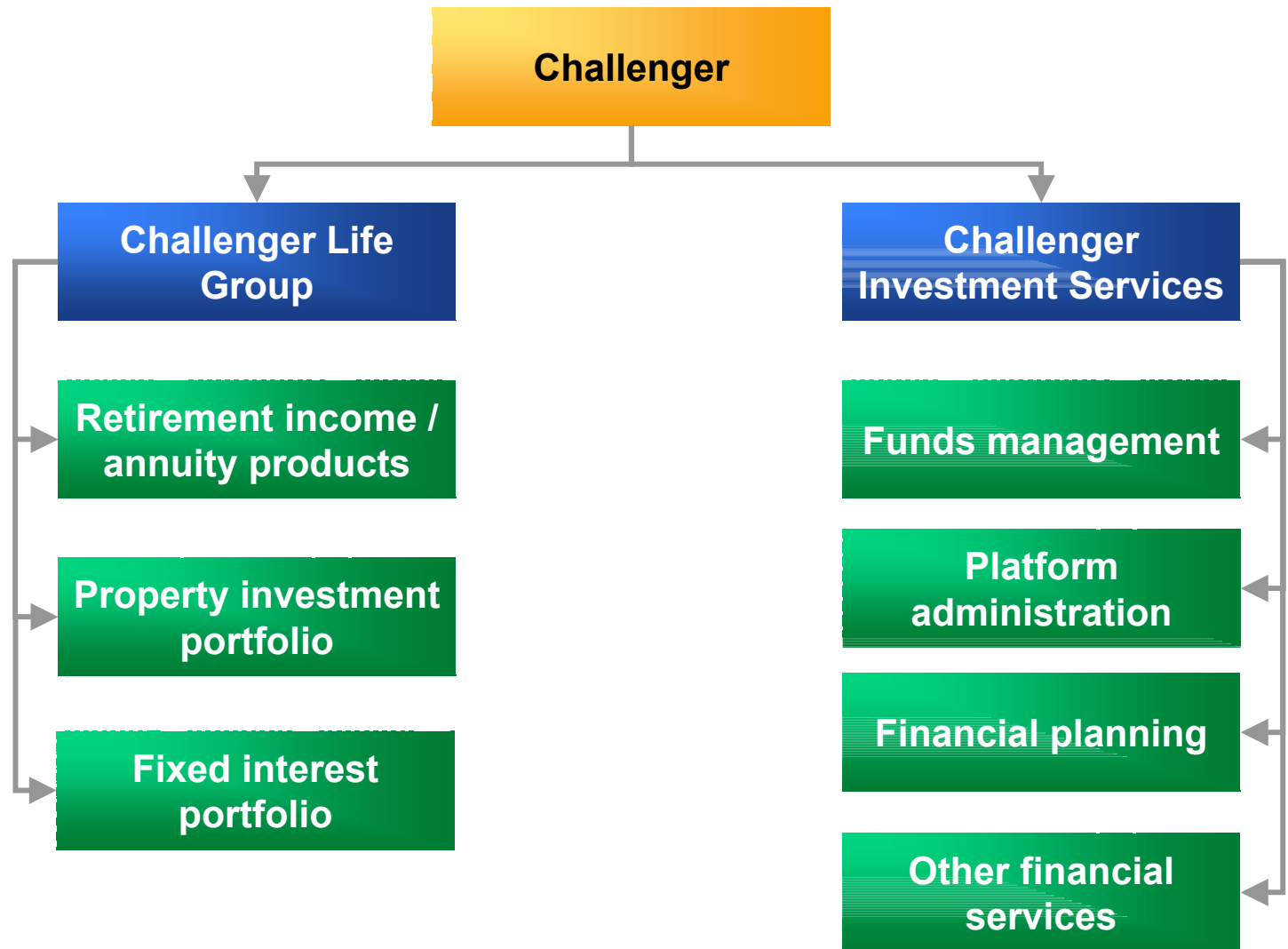
- ◆ Distributions
 - CPHIC taxed as a company for FY2002
 - tax treatment expected to continue
 - distributions can therefore be franked
 - expect that group will be treated as a single taxed entity



Overview of Challenger

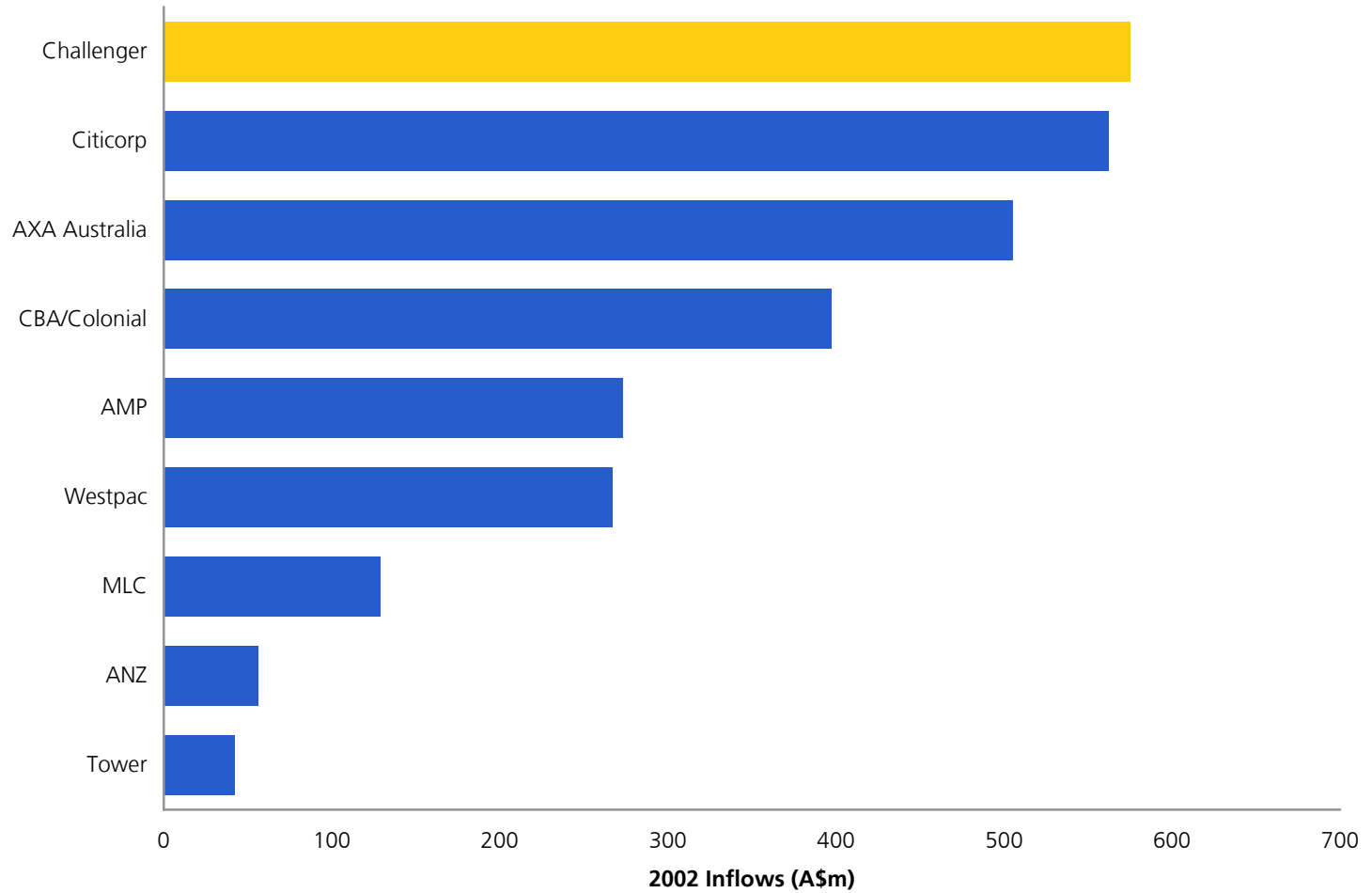
SECTION 3

Overview of Challenger's current position



Leader in long term annuities

Challenger is the leading provider of long-term annuities in Australia



Source: DEXXR

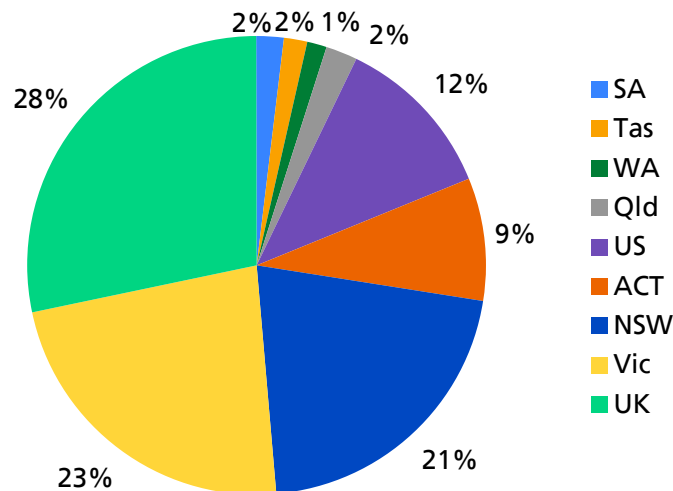
Howard Mortgage Trust

- ◆ \$2.2 billion in FUM as at 31 December 2002
- ◆ 20% market share of the \$7.5 billion mortgage trust sector
- ◆ “Fund Manager of the Year - Mortgage Funds”
MONEY MANAGEMENT 2002, 2001, 1999
- ◆ Rated 5 Stars by ASSIRT

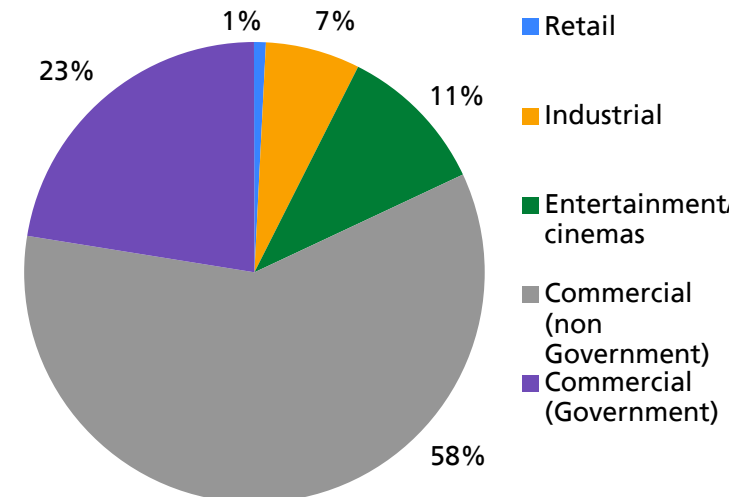
Property portfolio has quality and scale

- ◆ \$2.7 billion portfolio (52 properties)
- ◆ Investment grade property
- ◆ Average property value \$53 million
- ◆ Long leases (weighted average lease term ~ 11 years)
- ◆ Geographical and sector diversity
- ◆ Cashflows from rental streams support annuity liabilities

Property portfolio by region



Property portfolio by sector



Intended strategy for merged entity

SECTION 4

Strategy for merged entity

- ◆ Commenced consolidation of existing position
 - review all products
 - exit non-core businesses
 - efficiency improvements in operating expenses
- ◆ Grow core businesses and achieve greater balance
 - annuities
 - funds management, administration and distribution
- ◆ Actively manage capital (quality, quantity)

Annuities

- ◆ CPHIC remains committed to the current annuity business model
- ◆ Long term annuities backed by property subject to
 - supply of property
 - rent yields > interest rates
 - will investigate alternatives to adapt to changing market conditions
- ◆ Short term annuities backed by fixed interest

Capital management plan

- ◆ Achieve transparency by “look-through” income / capital units concept to current market value of the underlying properties
- ◆ Injection of \$235 million cash into CLL2 to improve the quality of capital and to support new business
- ◆ Synergy / Garrisons Financial Planning transferred out of the statutory fund of CLL2 in exchange for \$77 million in private equity investments to be held in shareholders fund
- ◆ Business assets transferred out of shareholders fund of CLL2
- ◆ Future new business capital needs supported by
 - capital injection
 - unwinding of existing annuities
 - liquid assets outside of life business
 - cash generated from non-life companies

Funds management, administration and distribution—intend to accelerate growth

Asset

management

- ◆ Fixed interest & cash
- ◆ Mortgage securities
- ◆ Australian equity
- ◆ International equity
- ◆ Property securities
- ◆ Multi-sector

Distribution

- ◆ Garrisons Financial Planning
- ◆ Other acquisitions
- ◆ Financing dealership start-ups

Direct property (ex life company)

- ◆ Syndicates
- ◆ Economies of scale may provide opportunities

Masterfund / WRAP administration

- ◆ Synergy / Galaxy
- ◆ Further enhancements

Other

- ◆ Margin lending
- ◆ Other financial services



Pro-forma financial information

SECTION 5

Pro-forma merged entity

Change in accounting policies

- ◆ Increase transparency through
 - looking through income and capital units concept to market value of underlying properties
 - debt fully stated on a current market basis

- ◆ Historical treatment and new accounting policies both valid

- ◆ New policies address market concerns in relation to
 - transparency
 - timing of profit recognition in relation to properties

Pro-forma merged entity

Summary pro-forma Statement of Financial Position

As at 31 Dec 2002 (\$m)	CPHIC	Challenger	Net adjustments ¹	Pro-forma merged entity
Total assets	500	5,031		5,390
Total liabilities	7	4,224		4,180
Net assets	493	807	(90)	1,210

Notes:

1	Net adjustments:	
	Fair value	(305)
	Acquisition accounting	<u>215</u>
	Net impact	(90)

Pro-forma merged entity

Fair value adjustments

Source	Net asset impact \$m
Change in valuation basis	
— Change income & capital units to underlying latest market value of properties	(330)
— Mark to market of fixed debt	(106)
— High level review policyholder liability values	96
Sub-total	(340)
Reassessment of carrying values	
— Management rights	(23)
— Garrisons Accounting Group	(9)
— Previous goodwill	(5)
Sub total	(37)
Tax effect of adjustments	72
Total	(305)

Pro-forma merger entity

Acquisition accounting

Net asset impact	Net asset impact \$m
Assume fair value for consideration of 47 cents per unit & all Schemes effective	
◆ Total acquisition consideration \$717m	
◆ Elimination of convertible notes	75
◆ Goodwill resulting from the transaction	201

Acquisition provisions	
◆ Surplus lease space	}
◆ Redundancies	
◆ Fixed asset write-offs	
◆ Various product and platform rationalisations	
	(46)

Combined transaction costs of CPHIC and Challenger	(15)
Total	215

Key terms

SECTION 6

Consideration offered

- ◆ Challenger Shareholders—4.5 CPHIC units for every Challenger share
- ◆ Challenger Convertible Noteholders choice of:
 - 5.5 CPHIC units for each Challenger convertible note
 - roll-over on current terms (except exchange of 4.5 CPHIC units for every Challenger share issued if converted)
- ◆ Challenger Optionholders—rolled over on current terms (except, upon exercise, each Challenger share issued will be exchanged compulsorily into 4.5 CPHIC units)

Transaction structure

- ◆ Scheme of arrangement for each class of security
- ◆ Share Scheme not dependent on Note or Option Scheme but Option and Note Schemes dependent on Share Scheme
- ◆ CGT rollover relief for Challenger shareholders likely following recent Government announcement
- ◆ No separate classes within Share or Note Scheme
 - CPH and associates entitled to vote with other securityholders
- ◆ CPHIC unitholder vote required
 - CPH and associates NOT entitled to vote

Fee arrangements

- ◆ CPH Management is entitled to Management / Performance Fees
- ◆ In respect of the Challenger investment only, under the schemes CPH Management will
 - receive no Management Fee on that investment until the CPHIC unit price (10 day VWAP) exceeds \$0.60 and then
 - the cost of the Challenger shares to CPHIC until 30 June 2005, and
 - the value of Challenger after 30 June 2003
 - Five Year Performance Fee calculation based on valuation of Challenger at that time
 - CPH Management will amend the CPHIC constitution to give effect to the above
- ◆ Investment Opportunities and Management Agreement remains in place

Conditions

- ◆ The merger is conditional on
 - CPHIC Unitholders approving the acquisition of Challenger Shares and Notes from CPH and its associates, pursuant to ASX Listing Rules 10.1 and 11.1.2 and the Corporations Act
 - approval of the Challenger Share Scheme by Challenger Shareholders and the Court
 - Treasurer approval under Financial Sector (Shareholdings) Act
 - APRA confirming to CPH Management immediately prior to the Court Approval Date that it is satisfied with the proposed capital management plan

Merger highlights

- ◆ Greater access to capital for Challenger
- ◆ Focus on core annuity and funds management businesses
- ◆ Strategy will build on existing core business, building funds management operations to accelerate growth
- ◆ An equitable structure

Timetable

SECTION 6

Timetable

Friday 9 May	◆ First court hearing
From 12 May	◆ Printing and dispatch of documents
Monday 16 June	◆ Challenger Securityholder meetings
Tuesday 17 June	◆ CPHIC Unitholder meetings
Friday 27 June	◆ Second court hearing
Tuesday 1 July	◆ Scheme effective date
	◆ Last day of trading in Challenger shares
Wednesday 2 July	◆ Deferred settlement trading of CPHIC Units commences
Tuesday 8 July	◆ Record date for Scheme consideration
Tuesday 15 July	◆ Dispatch of holding statements
