

Colonial First State Private Equity News

February 2003

Welcome to the Colonial First State Diversified Private Equity Fund newsletter.

The Fund at a Glance

Fund size	\$103.2 million
First two instalments (already paid)	\$51.6 million
Amount invested to date (Feb 2003)	\$38.8 million
'Later Stage' investments, at cost	Flexirent – \$12.6 million Endeavour Healthcare – \$8.6 million Europcar Australia – \$8.5 million Mincom – \$3.0 million
'Early Stage' investments, at cost	Integration Management – \$4.0 million Agrilink Holdings – \$2.1 million

Valuation of your units

Together with this newsletter, you will also have received an investor statement showing the value of your units in the Diversified Private Equity Fund as at 31 December 2002.

The Fund's assets are revalued six-monthly and, since 30 June 2002, we are pleased to report an increase in the unit value from 98 cents to \$1.01 (on a fully-paid \$1.00 basis).

Fund Activity

The Fund has made two new investments since we last communicated with you in September 2002 – Flexirent and Mincom – committing a total of \$15.6 million. Profiles of these two new investments are shown on the next page.

Flexirent was introduced to us through the Commonwealth Bank of Australia (CBA), and is the first of our private equity investments to have come from this channel. We anticipate that future investments of similar quality will come through the CBA.

The private equity team continues to actively review new investment opportunities from both internal and external sources. With the public markets remaining very difficult for 'small cap' companies to raise new capital, we are continuing to see new investment opportunities at realistic prices and remain confident in our ability to build a diversified portfolio for the Fund over time.

Steve Baldwin
Head of Private Equity

colonialfirststate.com.au/privateequity



New investment – Flexirent

In February 2003, the Fund invested \$12.6 million for a 20% shareholding in Flexirent, a wholly-owned Australian private company established in 1988. Headquartered in Sydney, the company employs approximately 200 people throughout Australia and New Zealand.

Flexirent offers rental programs for IT and other equipment that are tailored to suit small to medium businesses, home users, corporate enterprises, Governments and educational institutions. Flexirent is the market leader in the 'microticket' leasing segment, targeting transactions of up to \$20,000. The company has achieved 30% per annum growth over the past several years.

Flexirent operates mainly via retail distribution channels and has a long-term agreement to supply rental programs to Harvey Norman, Australia's largest retailer of IT equipment. Flexirent also supplies rental programs to Apple Computer, Bing Lee, IBM, Intel, Retravision and independent computer retailers across Australia and New Zealand.

We have chosen to invest in Flexirent due to its strong market position, solid management team and commitment to service excellence. We believe our investment and participation on the Board will assist the company to expand its market penetration, both in Australia and internationally.

Rajeev Dhawan, one of our private equity investment directors, has been appointed to represent the Fund's interests on the Flexirent Board.



New investment – Mincom

In October 2002, the Fund acquired a 6% shareholding in Mincom Limited, a provider of specialist software and services to capital intensive organisations across the globe. Headquartered in Brisbane, Mincom is one of Australia's largest software companies with approximately 1,100 employees in 18 different offices, including Australia, North America, South America, Southeast Asia, Africa and Europe.

Mincom's software allows companies to automate the accounting, human resources management and payroll, materials management, project management and asset maintenance management functions internally. Mincom's technology is used by almost 500 international customers within the mining, oil and gas, utilities, transportation, defence and government industries – these include Anglo American, Australian Defence Forces, Chilean Navy, Cleveland-Cliffs Inc., Energex, Integral Energy, MIM, MTR Corporation, Newmont Mining, Pacific Power, Rio Tinto, Scottish Power and Union Pacific.

We have chosen to invest in Mincom because of its diverse blue-chip customer base, its recognised industry leadership and the company's global sales and service infrastructure.

Although unlisted, Mincom has approximately 160 shareholders and they do publicly release their annual financial results – in the June 2002 financial year, the group reported total revenues of \$207.8 million and an operating profit before income tax of \$8.6 million.

Steve Baldwin, Head of Private Equity, represents the Fund's interests on the Mincom Board.



Existing investment – Endeavour HealthCare

Endeavour is a Perth-based vertically-integrated healthcare provider, seeking to build through acquisition a critical mass of general practices, occupational health practices and pathology businesses across Australia. Endeavour currently has a total of 31 medical centres in Western Australia, New South Wales and Victoria, and owns and operates the Accord Pathology businesses in Western Australia and New South Wales. The company also operates Prime Occupational Health in Western Australia.

The Fund originally acquired a 9% shareholding in Endeavour in June 2001. Due to the extremely competitive conditions in which Endeavour commenced operations in 2001, the Fund's investment did not perform to our expectations, with the Company making a significant loss in the June 2002 financial year. Changes to the Endeavour management team were made, with a focus on improving the operational performance of the business. The new management team has been successful in achieving improved results via a combination of revenue growth, strict cost controls and the sale of underperforming assets.

Endeavour's trading results for the six months were cashflow positive (at the EBITDA level) and the company's Balance Sheet has no material borrowings. This has allowed the Company to cautiously resume acquisition activity, albeit on a limited scale. Generally, new acquisitions will be pursued which enhance the value of Endeavour's existing assets, particularly the higher-margin pathology businesses.

Rajeev Dhawan represents the Fund's interests on the Endeavour Board.



Existing investment – Europcar Australia

Europcar is Australia's third largest car rental company, behind Avis and Hertz. The company grew significantly in the 2000 calendar year (when it acquired both the National Car Rental business in Australia and also the Europcar franchise rights) and the Fund acquired a 26% shareholding in Europcar in July 2001.

Europcar is focused on building the infrastructure and capabilities to consolidate the rapid growth achieved by the company in recent years. The senior management team has recently been strengthened by the addition of a new Sales & Marketing Director and a new Chief Financial Officer.

The company is well positioned through its Virgin Blue strategic alliance to achieve further growth in the Australian hire car market.

Rajeev Dhawan represents the Fund's interests on the Europcar Board.



Existing investment – Integration Management

Integration Management is a Sydney-based company focused on developing billing software that allows telecommunications carriers to accurately invoice and verify the charges for the use of their own networks, as well as other carriers' networks. This is known as an 'interconnect billing system'. The Fund originally acquired a 24% shareholding in Integration Management in May 2001.

The telecommunications environment is still very tough with many carriers delaying purchasing decisions as a result. This is undoubtedly affecting Integration Management's sales, which although increasing year-on-year, are not growing at the rate originally forecast. Sales in the United States, however, are encouraging, with the company now having five customers there.

Duncan Taylor, another of our private equity investment directors, represents the Fund's interests on the Integration Management Board.

AGRILINK

Existing investment – Agrilink

Agrilink is a provider of irrigation management technology and services to enable growers to make better decisions on water and fertiliser usage. The company has offices in Australia and the United States with customers including the major winegrape, cotton and tropical producers in Australia. The Fund originally acquired a 13% shareholding in Agrilink in May 2002.

A number of issues have adversely affected Agrilink since the Fund's investment last year. The continued Australian drought, together with the unexpected corporate restructure of Agrilink's major U.S. distributor, have resulted in the company underperforming to date. Recovery in Australian sales will largely be dependent on improvements in drought conditions. Sales in the United States are showing signs of improvement in recent months, after the interruption caused by the distributor's corporate reorganisation.

Future Instalments

Please be aware that the dates for payment of your next instalments are:

- 3rd Instalment: 5pm, 31 July 2003
- 4th Instalment: 5pm, 30 July 2004.

We will notify you in writing in advance of each of these dates.

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
- Contact the Colonial First State Investor Service Centre on 13 13 36
- Visit the Colonial First State website: colonialfirststate.com.au/privateequity

Direct debit

Investors who paid their original instalment by cheque may wish to take advantage of the convenience and efficiency of the direct debit system for their future instalments. Payments under the direct debit system are processed on the last day of the instalment period and are automatic, meaning that you do not have to worry about missing the deadlines through cheques being delayed in the post or similar circumstances. To take advantage of the direct debit facility simply call our Investor Service Centre on **13 13 36** and we will arrange for a direct debit authority to be sent to you.

Banking Details

If you have recently changed your bank account details or wish to confirm the details that Colonial First State have registered for you, please contact our Investor Service Centre on **13 13 36**.

Protecting your privacy

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 call our 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. 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 is not advice and does not account for any investor's objectives, financial position or needs.