

Colonial First State Private Equity News

March 2004

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

The Colonial First State Diversified Private Equity Fund (‘the Fund’) gives investors exposure to unlisted companies across a broad range of industries and business life cycle stages. The ten-year Fund aims to achieve returns for investors that are 5% p.a. greater than traditional listed investments. The Fund’s aim is to commit no more than 40% of its total committed capital to ‘Early Stage’ investments and at least 60% of its total committed capital to ‘Later Stage’ investments.

The Fund at a Glance – as at 31 December 2003

Fund size	\$103.2 million
First three instalments (already paid)	\$77.4 million
Amount invested to date	\$39.9 million
‘Later Stage’ investments, at cost	Flexirent – \$12.7 million Endeavour Healthcare – \$8.7 million Europcar Australia – \$8.5 million Mincom – \$3.8 million
‘Early Stage’ investments, at cost	Integration Management – \$4.1 million Agrilink Holdings – \$2.1 million
Total Portfolio, at valuation (audit reviewed)	\$49.4 million

Capital committed and performance – as at 31 December 2003

We are pleased to report a further increase in the value of units in the Diversified Private Equity Fund over the past six months. As at 31 December 2003, the Fund’s unit price was \$1.1075 (up from \$1.0766 as at 30 June 2003) on a fully-drawn basis. The Fund’s internal rate of return to 31 December 2003 is 11.4% p.a., which is pleasing for a private equity fund in the early stages of its 10-year life.


As unitholders are aware, our Diversified Private Equity Fund was established in mid-2001. The Fund was structured with investors committing to a full \$1.00 per unit, however, capital was to be called from unitholders in four equal annual instalments of 25 cents each. We received the third instalment of \$25.8 million during the December 2003 half-year and unitholders in the Fund have now paid 75 cents per unit.

Fund activity and new investments

The Fund made no new investments in the December 2003 half-year. Subsequent to the end of the period, one new investment commitment (Atcor – \$2.5 million) has been made and there are a number of other prospective new investments currently under review by the Manager.

STEVE BALDWIN
Head of Private Equity

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The Fund made two follow-on investments in the December 2003 half-year, being \$0.8 million to Mincom (for equity acquired from existing Mincom shareholders) and \$0.1 million to Integration Management (as part of a small capital raising undertaken by that company).

The re-emergence of the Initial Public Offering ('IPO') market in the December 2003 half-year has resulted in higher pricing expectations for private equity investments, particularly for those businesses that are at the larger end of the scale (enterprise values above \$50 million). While this stage of the market cycle will most likely increase entry prices as the Fund seeks to acquire larger private businesses throughout 2004, the corollary is that the exit opportunities for a number of the Fund's investments are also enhanced.

We continue to evaluate a number of private businesses (enterprise value of \$10-50 million) who are either seeking expansion capital for growth, or who are seeking to create liquidity for existing shareholders through a management buy-out (or management buy-in). This is the market segment we are targeting for leads through our Commonwealth Bank relationships. We view the IPO market as less of a competitive pricing threat in this segment of the market.



New investment – Atcor Medical

Sydney-based AtCor develops and markets the SphygmoCor range of cardiovascular diagnostic devices, which provide physicians with important data about the condition of the heart and the arterial system that currently can only be measured by the insertion of a catheter. The Fund acquired its original shareholding in Atcor in February 2004 via a capital raising, proceeds of which will be utilised to support clinical trials with leading institutions in the United States, including The Mayo Clinic and Johns Hopkins University.

Over 13 million people in the USA have hypertension which cannot be controlled with current diagnostic and therapeutic regimens. SphygmoCor has already gained regulatory approval in key markets, including the USA, Europe and Japan. The device has achieved significant penetration into the research and clinical trial markets, with 500 units currently placed in leading cardiovascular clinical research centres in 40 countries worldwide.

The Fund's most likely mode of exit from this investment will be through an IPO in around 18 months time.



The best way to finance technology

Existing investment – Flexirent

Headquartered in Sydney, Flexirent employs around 200 people throughout Australia and New Zealand and leases IT and other equipment to small and medium businesses and home users. The company offers rental programs that allow repayments to be made over time and are tailored to suit small to medium businesses, home users, corporate enterprises, Governments and educational institutions. The Fund acquired its shareholding in Flexirent in February 2003.

Flexirent is the market leader in the 'microticket' leasing segment, targeting transactions of up to \$20,000. The company has grown at over 30% per annum for the past several years. Flexirent operates mainly via retail distribution channels and has a long-term agreement with Harvey Norman, Australia's largest retailer of IT equipment. Flexirent also supplies rental programs to a number of other computer retailers and dealers across Australia and New Zealand.

Flexirent, which is currently the largest investment in the Fund, is trading very profitably. A 3-year Strategic Plan has recently been developed by the company's Chief Executive, John Delano, which is fully supported by the Flexirent Board and all of the shareholders. Under the Strategic Plan, the company is likely to investigate an IPO over the next 18 months.



Existing investment – Endeavour HealthCare

Endeavour is a Perth-based healthcare provider, which was created through the acquisition of a number of general practice, occupational health practices and pathology businesses across Australia. The Fund acquired its original Endeavour shareholding in June 2001.

Endeavour currently has a total of around 30 medical centres in Western Australia and New South Wales, while they also own and operate the Accord Pathology businesses in Western Australia and New South Wales. The company also operates Prime Occupational Health in Western Australia.

Endeavour is cashflow positive (at the EBITDA level) with no external borrowings, however, a large amortisation charge (on previous acquisitions) means the company is trading at an operating loss. Due to the limited number of remaining consolidation opportunities (particularly in pathology), the Fund's exit strategy is likely to be via trade sale.



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). The Fund acquired its shareholding in Europcar in July 2001.

After a very difficult trading period for tourism-related businesses in the June 2003 half-year (with both SARS and the Iraq War), Europcar has again posted a very creditable profit for the December 2003 half-year. While all of the other major car rental companies have some form of partnering relationships with Qantas, Europcar has an exclusive relationship with fast growing Virgin Blue, which is progressing very well.

The strategic nature of Europcar (being the only independently-owned car rental operation of any size in Australia) is likely to result in the Fund's exit strategy being via trade sale.



Existing investment – Mincom

Headquartered in Brisbane, Mincom is one of Australia's largest software and services companies with approximately 1,000 employees in 18 different offices, including Australia, North America, South America, Southeast Asia, Africa and Europe. The Fund acquired its original shareholding in Mincom in October 2002.

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 – Mincom is a recognised industry leader in those markets and its customer base is 'blue chip'.

Mincom announced a very significant contract with the Australian Defence Force in August 2003 (in excess of \$100 million over the next five years). The global nature of the company's operations would indicate a preferred exit strategy via trade sale, although the business is of sufficient size to also consider an IPO.



Existing investment – Integration Management

Sydney-based Integration Management focuses on selling 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 acquired its original shareholding in Integration Management in May 2001.

The telecommunications environment has remained difficult. Integration Management's sales, although increasing year-on-year, have not grown at the rate originally forecast. Prospects for the future, however, are more encouraging and recent sales in Asia have also confirmed the product's suitability for the emerging 3G market.

The Fund's most likely mode of exit from this investment will be through a sale to (or merger with) a larger international market participant.



Existing investment – Agrilink

Adelaide-based 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 wine, cotton and tropical producers in Australia. The Fund acquired its original Agrilink shareholding in May 2002.

A number of issues adversely affected Agrilink in late 2002 and throughout 2003. In particular, the continued Australian drought and the financial failure of the company's telemetry supplier (Adcon) resulted in Agrilink underperforming against its original investment plan. Recovery in Australian sales is predicted for 2004, together with sales in the United States through a select number of large distributors.

The Fund's most likely mode of exit from this investment will be through a trade sale.

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 Investor Services on **13 13 36**
- Visit colonialfirststate.com.au/privateequity

Please be aware that the date for payment of your fourth and final instalment is 30 July 2004. We will notify you in writing in advance of this date. If you have recently changed your bank account details or wish to confirm details that Colonial First State have registered for you, please contact Investor Services on 13 13 36.

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