

Colonial First State Private Equity News

September 2002

Welcome to the second newsletter of the Colonial First State Diversified Private Equity Fund for 2002.

The Fund at a Glance – as at 30 June 2002

Fund size	\$103.2 million
First instalment	\$25.8 million
Investment commitments	Endeavour HealthCare – \$7.8 million Integration Management – \$4.0 million Europcar Australia – \$10.0 million Agrilink Holdings – \$3.2 million

The Fund's portfolio now comprises two 'later stage' investments (Europcar Australia and Endeavour HealthCare) and two 'early stage' investments (Integration Management and Agrilink). Under the Fund's allocation, no more than 40% of the capital can be committed to 'early stage' investments.

In early August, the Fund also received the second 25% instalment from investors – you will have received separate confirmation of this contribution. We have a number of investment opportunities well progressed for investment of this new capital, with a particular focus on sourcing 'later stage' investments for the Fund.

Recent Performance of the underlying businesses



Melbourne-based Europcar Australia (formerly Delta Europcar) is the country's third largest car rental company (behind Hertz and Avis).

The collapse of Ansett and the events of 11 September 2001 have continued to affect the Australian car rental market in the past year. Whilst the number of people using hire cars has contracted since September last year, Europcar Australia has been able to slightly increase its market share (currently around 13%) and continues to trade at profitability levels similar to 2001. We see this as a good achievement in a difficult market environment.

The Board of Europcar has also recently appointed a new CEO, Gary Smith, who has extensive experience in the tourism and leisure sector.

Steve Baldwin
Head of Private Equity



Perth-based Endeavour Healthcare is an integrated healthcare provider, seeking to further consolidate its business by building a critical mass of General Practice (GP), occupational health practices and pathology businesses across Australia.

After a disappointing start to this investment (with senior management changes being made in late 2001), Endeavour has now stabilised. These management changes are now having a positive affect on the business, as is Endeavour's program of disposing of non-core assets. Of particular note was the sale of its loss-making Victorian businesses, which were sold to the Mayne Group in January 2002. This enabled Endeavour to repay all of its debt at that time.



Sydney-based Integration Management (IM) has developed billing software that allows telecommunications carriers to accurately invoice and verify the charges for the use of their networks, as well as other carriers' networks. This is known as an 'interconnect billing system'.

Despite the continuing adverse market conditions for the telecommunications industry generally, IM has traded well in the past financial year. The company has doubled its customer base with a number of new contracts and increased annual revenues by over 50%. IM continues to receive positive feedback (from both existing and new customers) about the value and competitiveness of its product.



Adelaide-based Agrilink is a provider of irrigation management technology and services. This gives growers continuous data from the field, direct to their PC, via the internet. This technology, backed by Agrilink's agronomic and technical support, enables growers to make better crop management decisions, resulting in significant yield and quality improvements and reduced water and fertiliser use.

Agrilink's technology is used by the leading growers in irrigated agriculture, including the major wine and cotton producers in Australia. The company has a proven product (with a strong value proposition), a large global market and established distributors in the USA.

Unit Valuation

You will have already received your 30 June 2002 statement, setting out the value of your units in the Fund. All of the underlying investments remain valued at cost, with the exception of Endeavour HealthCare (where we have applied a write down to reflect the fact that the company probably overpaid for some of the medical businesses it acquired).

As previously communicated to investors, the Fund has made a small distribution of 0.44 cents per unit for the June 2002 financial year. The Fund is independently audited by PriceWaterhouseCoopers.

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 the Investor Service Centre on 13 13 36; or visit the Colonial First State website: colonialfirststate.com.au/privateequity

You are receiving this information as part of your investment in the Colonial First State Diversified Private Equity Fund. If you no longer wish to receive this update, please contact the 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 Private Act and the National Privacy Principles.

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Private Equity Industry Outlook

Competition for quality investment opportunities amongst private equity funds remains quite intense, with a scarcity of quality deals currently providing a challenge for the industry. We believe that our investment team's focused marketing efforts, together with the continual dealflow we are sourcing from the Commonwealth Bank networks, enables us to review a majority of the private equity opportunities currently on offer. Despite these conditions we are well progressed on a number of opportunities for investment.

In the segment in which we typically invest (equity commitment of \$3-20 million), we are not seeing any upward pressure on the price of investing in unlisted businesses. This is further evidenced by the continued lack of new Initial Public Offerings (IPO's) where investors typically pay prices in excess of valuations at which private equity funds invest.