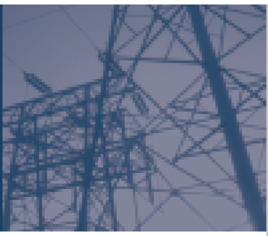
Colonial
First State Private Capital



Colonial First State Diversified Private Equity Fund Newsletter

March 2005

- → **The Colonial First State Diversified Private Equity Fund ('the Fund') gives investors exposure to unlisted companies across a broad range of industries at various business life cycle stages.**
- → **The Fund aims to achieve returns for investors that are 5% p.a. greater than traditional listed investments over its ten-year life.**
- → **The Fund will 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 is managed by a team of seven investment professionals (headed up by Steve Baldwin) and also has the benefit of an Investment Advisory Council (chaired by Bill Beerworth).**

The Fund at a glance – as at 31 December 2004

Fund size	$103.1 million
Amount invested to date	$63.4 million
Contingent investment commitments (currently undrawn)	$2.6 million
Cumulative distributions to date	$13.0 million
Cash available for new and follow-on investments	$37.1 million
'Later Stage' investments, at cost	Flexirent – $12.7 million Penrice – $11.2 million Endeavour Healthcare – $7.8 million SG Fleet Services – $6.0 million Mincom – $3.8 million Technisyst – $3.8 million
'Early Stage' investments, at cost	Integration Management – $4.1 million Atcor Medical – $2.5 million Agrilink Holdings – $2.1 million
Total Portfolio, at cost	$54.0 million
Total Portfolio, at valuation (reviewed by auditors)	$70.8 million

Market conditions and investment activity

The past six months have seen unprecedented levels of capital being raised for investment in new private equity funds. While many of these new funds have investment charters that are wider than private equity, there is no doubt that this supply of capital is increasing pricing pressure for new investments. The amount of private equity being provided for these new investments is also being increasingly leveraged as lenders have become more aggressive.

We continue to focus primarily on buyouts and expansion opportunities in the 'mid-market', being private businesses which typically have an enterprise value in the $30-150 million range. Although pricing pressures are still very real, we believe that this segment of the market offers the most prospective number of attractive investment opportunities. 'Dealflow' – the term most typically used in the private equity industry to describe the number and quality of new investment opportunities – has been good and we anticipate completing a number of new investments this year from the Fund's remaining cash reserves.

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In addition to seeking new investments for the Fund, we are actively considering follow-on investments in some of our existing businesses. To that end, the Fund has committed to a further $0.8 million investment in Mincom (through a secondary purchase from an existing shareholder – expected to complete before 31 March 2005) and a further commitment of approximately $1.8 million will shortly be made to SG Fleet Services (in order to take up the Fund's prorata share of a capital raising to finance a major acquisition – expected to complete by no later than May 2005).

The Fund has been very active in realising certain investments over the past few months. Europcar and Flexirent have been fully exited in cash transactions – the former at a small profit and the latter at a very significant profit. Endeavour Healthcare is distributing cash to its shareholders in an orderly manner following the sale of its operating assets – the ultimate result will be a loss, which has been fully provided for in the 31 December 2004 portfolio valuation.

Continuation of positive investment revaluations and distributions

Investment performance for the past six months has continued to be positive and, as at 31 December 2004, the portfolio was valued at $70.8 million, being an amount of $16.8 million over its cost base of $54.0 million.

A distribution of $10.8 million (10.5 cents per unit) was paid to unitholders in December 2004, comprising $9.8 million from the sale of the Europcar investment and $1.0 million from redemption of the Convertible Notes held in Endeavour Healthcare.

We currently plan to make a large distribution of at least 31 cents per unit ($32.0 million) to unitholders in June 2005. Of this amount, $30.6 million will have been derived from the sale of Flexirent, while a preliminary capital return of around $1.4 million is expected from Endeavour Healthcare.

Europcar investment – realisation in November 2004

Melbourne-based Europcar Australia is the third-largest domestic car rental company, behind Avis and Hertz. The Fund acquired its shareholding in July 2001, around the time that Europcar entered into an exclusive alliance with Virgin Blue.

The Fund's Europcar Australia investment was affected by a high number of uncontrollable external factors. The World Trade Centre terrorism attack and collapse of Ansett occurred very soon after the Fund made its original investment, which had an immediate effect on domestic tourism. The Europcar Australia business started to recover in 2002, but was again negatively affected by outbreak of the Iraq War and the SARS epidemic in the first half of 2003.

The resilience of the Europcar Australia business was again demonstrated by a strong turnaround in 2004 performance and a decision was made to realise the Fund's investment in early November 2004, through a cash sale back to the founder. Sale proceeds were $9.8 million (cost: $8.5 million), which were distributed to unitholders in December 2004.

Endeavour investment – realisation (partial) in November 2004

Perth-based Endeavour Healthcare was originally created through the acquisition of a number of general practice, occupational health practices and pathology businesses across Australia. The business strategy was to create a meaningful national business in a healthcare industry that was expected to consolidate. The Fund acquired its shareholding in June 2001.

The Endeavour Healthcare business was unable to execute on its strategy, and although the business had positive operating cash flows by 2004, it still recorded a loss after amortisation charges from the previous acquisitions. A decision was taken by the Endeavour Healthcare Board to sell the operating assets and return cash proceeds to the shareholders. In late 2004, the GP and Pathology assets were sold to Sonic Healthcare with the Occupational Health business being sold separately.

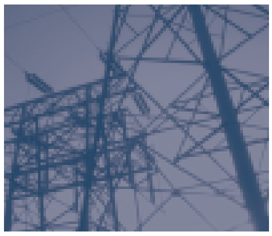
The Endeavour Healthcare investment was a disappointing one and final cash proceeds will show a loss. Proceeds of $1.0 million were received from redemption of Endeavour Healthcare Convertible Notes in December 2004 and this cash was distributed to the Fund's unitholders in that month. An initial capital return of around $1.4 million for the Fund is expected prior to 30 June 2005, followed by a second capital return sometime in 2006.

Flexirent investment – realisation in February 2005

Sydney-based Flexirent is the market leader in the Australian 'microticket' leasing segment, operating mainly via retail distribution channels including Harvey Norman, Australia's largest retailer of IT equipment. The Fund acquired its original shareholding in February 2003.

The Flexirent business has grown significantly since the Fund first invested, assisted by a strong retail environment. On 25 February 2005, the Fund sold its investment in Flexirent for proceeds of $30.6 million (cost: $12.8 million) through a share buy-back agreement with the company. Under the terms of the agreement, the Fund has already received an initial cash instalment of $16.2 million and will receive a further (secured) cash payment of $14.4 million prior to 30 June 2005.

The Flexirent investment has proved to be a very good one for the Fund and an internal rate of return ('IRR') of approximately 60% p.a was achieved over the holding period of two years. All proceeds from the sale of this investment are expected to be distributed to the Fund's unitholders prior to 30 June 2005.



Existing investment – AtCor Medical

Sydney-based AtCor Medical 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 vascular system that currently can only be measured by the insertion of a catheter. The Fund acquired its shareholding in February 2004 and is represented on the AtCor Medical Board by Peter Jenkins.

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 US, Europe and Japan. The device has achieved significant penetration into the research and clinical trial markets, with over 500 units currently placed in leading cardiovascular clinical research centres in 40 countries worldwide.

Proceeds from the February 2004 capital raising (in which the Fund participated) have been utilised to support clinical trials with leading institutions in the United States, including The Mayo Clinic and Johns Hopkins University. AtCor Medical has met all of the key milestones put in place at the time of the last capital raising and a decision has now been reached to more aggressively pursue sales in the US clinical market.

Existing investment – Penrice

Adelaide-based Penrice is a manufacturer of soda ash, sodium bicarbonate and other related products (including salt and limestone). The Fund acquired its shareholding through a secondary buyout in May 2004, alongside another private equity group and the existing Penrice senior management team. The Fund is represented on the Penrice Board by Tom Fennell.

With annual revenues of around $130 million, Penrice is a mature business with a ‘blue chip’ customer base and strong profit margins. Soda ash is a key input to the glass manufacturing industry and Penrice satisfies approximately 85% of the Australian domestic demand. Penrice also accounts for around 90% of the Australian sodium bicarbonate market, which is focused on agriculture, bathroom products, food, pharmaceutical products and industrial applications. The group also owns a highly valuable salt field and a limestone mine - both of which have their own strategic value.

Performance for the December 2004 half-year was in line with plan. The outlook for the June 2005 half-year has been improved by the recent increase in soda ash prices. The Fund’s most likely mode of exit from this investment will be through an IPO, a trade sale or a series of separate divestments of each strategic asset.

Existing investment – SG Fleet Services

Sydney-based SG Fleet Services was established in early 2004 by Super Group Limited, a listed South African fleet management and automotive supply chain business, who then proceeded to successfully negotiate the acquisition of Commonwealth Bank of Australia’s fleet management business. Super Group had expressed a strong desire to have an Australian private equity consortium as a partner in the transaction, and the Fund acquired its shareholding in SG Fleet Services in June 2004. The Fund is represented on the SG Fleet Services Board by Steve Baldwin.

The former Commonwealth Fleet Lease business (now renamed Fleet Australia) manages over 30,000 vehicles in a diverse portfolio, under either lease or long-term management contract. SG Fleet Services is currently acquisitive and we anticipate that follow-on capital will be provided by the Fund to share in a complimentary business. An increased investment in technology systems is also planned for 2005 to enable Fleet Australia to expand its product offering to include end-to-end fleet solutions and other value-added services.

Performance for the December 2004 half-year was ahead of plan and there is a reasonable outlook for the balance of 2005. The Fund’s most likely mode of exit from this investment will be through an IPO or a sale to Super Group.

Existing investment – Technisyst

Technisyst offers end-to-end mobile data solutions for two main markets – Public Safety and Intelligent Transport. The Fund acquired its shareholding in June 2004 and is represented on the Technisyst Board by Nitin Singhi.

The company’s public safety wireless data solutions are built to meet the demands of mission-critical environments, where lives are at stake and time is typically of the essence. It is the prime contractor on the NSW Whole of Government Contract Mobile Data Radio Service where 300 ambulances across the Sydney region are able to be tracked and receive and send data over a 34 base station network.

Technisyst has also continued its strong entry into the intelligent transport market by being awarded the prime contractor role on the Victorian Department of Infrastructure ‘Melbourne Smartbus’ Project. This project, which is scheduled to be completed in early 2006, uses real-time advanced passenger information system (RAPID) software to enable buses to be tracked, late running buses to receive traffic signal priority, and for passengers to receive up-to-date information about bus arrival times. Technisyst is also the primary subcontractor on the Auckland RAPID project.

The company has strategic alliances with Telstra, Vodafone, Mobitex Technology and ADT Wireless. The Fund’s most likely mode of exit from this investment will be through a sale to an industry participant.

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Existing investment – Mincom

Headquartered in Brisbane since its formation in 1979, Mincom is one of Australia's largest software and services companies with over 1,000 employees in 17 different offices internationally. The Fund acquired its original shareholding in October 2002 and is represented on the Mincom Board by Steve Baldwin.

Mincom's software allows companies to automate the accounting, human resources management and payroll, materials management, project management, (asset) maintenance management and e-procurement functions. Mincom technology is used in more than 400 customer sites around the world 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'.

Performance for the December 2004 half-year was ahead of plan and the outlook for the June 2005 half-year appears encouraging. A new Chief Executive Officer, Richard Matthews, commenced at Mincom in January 2005. 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 an 'interconnect billing system' that allows telecommunications carriers to accurately invoice and verify the charges for the use of their own networks, as well as other carriers' networks. The Fund acquired its original shareholding in Integration Management in May 2001 and is represented on the Integration Management Board by Brian McGlynn.

After a prolonged period of very low investment by the carriers, the telecommunications environment is now showing signs of growth, particularly in South-East Asia where Integration Management has made some large recent sales with partners such as IBM. Prospects for the future should be improved by demand from existing customers to expand and enhance their systems to cater for content billing (driven by 3G).

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 fruit producers in Australia.

The Fund acquired its Agrilink shareholding in May 2002. A number of factors have adversely affected Agrilink since our investment, in particular, the Australian drought and the financial failure of the company's telemetry supplier (Adcon). The Fund has elected not to participate in recent capital raisings and currently has no representative on the Agrilink Board.

The Fund's most likely mode of exit from this investment will be through a 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 or
- Contact Investor Services on **13 13 36** or
- Visit the Colonial First State website: **www.colonialfirststate.com.au/privateequity**

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