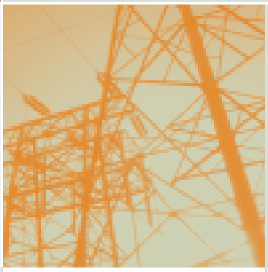

Colonial First State Private Equity News

September 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 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 eight 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 30 June 2004

Fund size	$103.1 million
First three instalments	$77.3 million
Amount invested to date	$61.9 million
'Later Stage' investments, at cost	Flexirent – $12.7 million Penrice – $11.2 million Endeavour Healthcare – $8.7 million Europcar Australia – $8.5 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 Agrilink Holdings – $2.1 million Atcor Medical – $1.0 million*
Total Portfolio, at valuation (audited)	$78.2 million

* *The Fund has committed a further $1.5 million to Atcor – we anticipate that the milestones for this drawdown will be met in the December 2004 quarter.*

** *The Fund has a further potential commitment of $2.6 million to SG Fleet Services, which is contingent on future events occurring.*

Capital committed and performance – as at 30 June 2004

We are pleased to report a further increase in the value of units in the Diversified Private Equity Fund. As at 30 June 2004, the Fund's unit price was $1.1579 (up from $1.1075 as at 31 December 2003 and $1.0766 as at 30 June 2003) on a fully-drawn basis. This is also after providing in the 30 June 2004 accounts for a distribution of $1.677 million (being 1.63 cents per full-paid unit), which was paid to investors in July 2004.

The Fund's net return to 30 June 2004 is 12.7% p.a.*, which is pleasing for a private equity fund at a relatively young stage 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 subsequent to 30 June 2004, we received the final instalment of $25.8 million from unitholders in the Fund – which is now fully paid up.

* *This net return is calculated after accounting for investment management fees, but before any Manager performance fees (which are only calculated at the end of the Fund's life, if investors have been returned their capital plus a preferred return of 8% p.a.).*

Fund activity and new investments

The Fund made four new investments in the June 2004 half-year, which we go into greater detail about later on in this newsletter. The portfolio now consists of ten companies and there are a number of other prospective new investments currently under review by the Manager.

The re-emergence of the Initial Public Offering ('IPO') market from mid-2003 has resulted in higher pricing expectations for new private equity investments, particularly for those businesses with enterprise values above $100 million. While this stage of the market cycle has increased entry prices as the Fund continues to seek new investments, the corollary is that the exit opportunities for a number of the Fund's investments are also enhanced.

We continue to target private businesses with an enterprise value in the $20-100 million range, which are seeking expansion capital for growth or looking to create liquidity for existing shareholders through a management buy-out (or management buy-in). We view the IPO market as less of a competitive pricing threat in this segment of the market.

Although the majority of the distributions will occur in the second half of the Fund's ten-year life (ie. from 2006 through to 2011), it is likely that distributions will now become more regular than has been the case in the first three years. As investments are realised for cash, it is our intention to return the full proceeds to investors.

New investment – Penrice (May 2004)

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 leveraged 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 Rajeev Dhawan.

With 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 has also commenced selling salt and limestone products externally, and these markets are expected to grow strongly in the next few years.

The Fund's most likely mode of exit from this investment will be through an IPO, a trade sale or another buyout.

New investment – SG Fleet Services (June 2004)

Sydney-based SG Fleet Services was established earlier in 2004 by JSE-listed Super Group Limited, a South African logistics, fleet management and automotive supply chain business who successfully negotiated 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 (to be renamed Fleet Australia) manages almost 30,000 vehicles in a diverse portfolio under either lease or long-term management contract. In addition to the change of ownership, Fleet Australia has also entered into a number of important long-term contracts with the Commonwealth Bank. An increased investment in technology systems is planned for FY2005 to enable Fleet Australia to expand its product offering to include end-to-end fleet solutions and other value-added services.

The Fund's most likely mode of exit from this investment will be through an IPO or a sale to Super Group.

New investment – Technisyst (July 2004)

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

The company's 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 (eg. ambulance services). Technisyst was recently awarded the prime contractor role on the NSW Whole of Government Mobile Data Radio Service Contract and the group has a higher level of contracted forward revenues than at any other time in its history. The company also has strategic alliances with Ericsson, Telstra and ADT Wireless.

The Fund's most likely mode of exit from this investment will be through a sale to an international industry participant.

New investment – Atcor Medical (February 2004)

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 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 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 are being utilised to support clinical trials with leading institutions in the United States, including The Mayo Clinic and Johns Hopkins University.

The Fund's most likely mode of exit from this investment will be through an IPO.

Existing investment – Flexirent

Headquartered in Sydney, Flexirent employs around 200 people and leases IT and other equipment. 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 February 2003 and is represented on the Flexirent Board by Rajeev Dhawan.

Flexirent is the market leader in the 'microticket' leasing segment, targeting transactions of up to $20,000. The company has around 150,000 customers and has grown at a rate of around 25% per annum for the past several years. The company's product funding is now sourced through four different banks. 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 both Australia and New Zealand.

Flexirent, which is the largest investment in the Fund, is trading very profitably. The company is likely to investigate the possibility of an IPO during 2005.

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 shareholding in June 2001 and is represented on the Endeavour Board by Rajeev Dhawan.

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. After a disappointing start to the investment, the Endeavour investment has stabilised and the business is now cashflow positive (at the EBITDA level) with no external borrowings.

Due to the limited number of remaining consolidation opportunities (particularly in pathology), the Fund's exit strategy is likely to be via a trade sale in the near-term.

Existing investment – Europcar Australia

With around 350 employees, Melbourne-based Europcar Australia is the third largest domestic car rental company, behind Avis and Hertz. The company grew significantly in the 2000 calendar year (when it both acquired the National Car Rental business in Australia and also the Europcar franchise rights) and the Fund acquired its original shareholding in July 2001. The Fund is represented on the Europcar Board by Rajeev Dhawan.

After a very difficult trading period for tourism-related businesses in the June 2003 half-year (with both the SARS epidemic and outbreak of the Iraq War), Europcar posted a very creditable recovery in profitability for the 2004 financial year. Europcar's exclusive relationship with Virgin Blue continues to progress well. The car rental industry does, however, remain extremely competitive and Europcar's primary advantage continues to be the fact that it is the 'lowest cost' operator.

The Fund's exit strategy from Europcar is likely to be through a sale, rather than an IPO.

Existing investment – Mincom

Headquartered in Brisbane since formation in 1979, Mincom is one of Australia's largest software and services companies with approximately 1,000 employees in 18 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's 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'. Mincom has recently announced some very significant contracts in the defence industry, both with the Australian Defence Force and in North America.

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.

The telecommunications environment has been through a very difficult couple of years and 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 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). A recovery in sales is predicted, however, the Fund has elected not to provide follow-on funding in recent capital raisings. The Fund 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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