

Distressed Debt Fund

ARSN 099 271 173

Investment Update

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Investment Update – General Market Comment

We continue to witness private equity investors exiting investments. Many of these exits have come in the form of initial public offerings (“IPO”), where the company is sold to the public via a stock market listing.

Many of these emanate from private equity funds that raised money in the late 1990s. This provides a good indication of the timeframe we should expect, as private equity investors, before seeing initial returns and investments realised. DDF is just over two years into what we expect will be a 7-10 year investment strategy.

Helmsman Funds Management, the manager of our underlying investment, appears to have a good pipeline of investments to consider. How this will translate into actual investments is difficult to judge, but we take the view that they must lift many stones before uncovering a gem, even a rough one.

Underlying Investments

Helmsman Capital Fund has made 4 investments so far. We provide a brief update on the 3 major ones below. DDF has a 22% share in the Helmsman Capital Fund. The table below summarises of DDF's exposure (at cost) to each investment.

Investment	DDF Exposure
WC Penfolds*	\$48,400
Loongana Lime	\$341,000
National Medical & Imaging Group	\$1,763,564
Other (undisclosed at this time)	\$118,813
Cash**	\$660,000

* First ranking secured position. **Funds from repayment of WPC investment

WC Penfolds Ltd

In our last update, we wrote of the trading losses incurred by WC Penfolds (“WCP”) which were beyond those forecast by the business plan. Conditions in the business continued to worsen and the company appointed a voluntary administrator in early March.

The investment Helmsman made in WCP was tightly secured and has now been repaid. A small amount of interest and costs associated with the investment remains in the business, secured by a first ranking charge over WCP's assets.

There are several offers for WCP being submitted to the administrator. One of these is a consortium led by some WCP Directors that may lead to Helmsman participating in the funding of the restructured business. Any decision to invest will be on the basis of an entirely new investment proposal. The pricing of any such investment would reflect the current state of the WCP business.

Although we would have hoped for the initial investment to be more profitable, WCP illustrates some of the risks of investing in distressed assets. This also highlights the importance of knowledge and experience when it comes to making those risks acceptable from an investment perspective. The structure with which Helmsman made their investment in WCP provided them with the strongest possible position with which to protect investors' capital. The repayment of the convertible notes means all our investment has been returned.

Our investment value has not declined as a result of the WPC situation. There has been some media coverage of the situation and we remind investors that sometimes media reports can be less than accurate. If you have any questions about what you may hear in the media about this investment, please contact your financial consultant in the first instance.

Loongana Lime

Helmsman also completed the acquisition of Loongana Lime. Loongana Lime is a lime processing business in the goldfields area of Kalgoorlie in WA. The company is reviewing opportunities for increased production and sales as well as undertaking some environmental initiatives related to its operating licenses.

As Loongana has only recently been acquired, we believe it is far too early to form any opinion as to how it is likely to perform. We expect more information will be available by the time we release our next investment update.

National Medical & Imaging Group Pty Limited ("NM&IG")

NM&IG businesses include medical centers, radiology clinics and a day surgery facility. The acquisition of the medical centers and radiology clinics was completed in late February 2004. Helmsman expects to complete the acquisition of the day surgery assets in July/August 2004.

Since it gained control, the Helmsman-backed management buy-in team has been dealing with the transfer of the business from Gribbles, including establishment a new head office and reviewing reporting structures, business processes, systems and controls. This activity is likely to continue for the next quarter.

As NM&IG has only recently been acquired, we believe it is far too early to form any opinion as to how it is likely to perform. We expect more information will be available by the time we release our next investment update.

Calls on Units

Units in DDF are currently called to 40 cents per unit, with another 60 cents per unit remaining uncalled. We expect that a large proportion of the 60 cents outstanding will be called upon during the remainder of 2004, but this will depend entirely on the time it takes Helmsman to find suitable investment opportunities.

Unit holder Information

This investment update is available our website (www.berkleygroup.com.au). Should you have any enquiries regarding your unit holding, you should contact Registries Ltd on 02 9279 0677.

If you have any questions regarding your investment in Distressed Debt Fund, you should speak with your financial adviser in the first instance or contact us on 02 8233 0200.

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