

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES
ABN 093 639 064**

**FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2005**



Chairman's Letter

Friday, 30th September 2005

I welcome the opportunity to present to shareholders of State Development Fund Limited ("**SDF**") the annual report for the financial year ended 30 June 2005.

SDF is a Pooled Development Fund, aiming to maintain a portfolio of diverse investments displaying strong potential for capital growth, and which have business plans with a clear path to profitability. SDF has devoted its efforts in this financial year to expanding its business through careful and prudent management of its existing investments, Auspep Holdings Limited ("**Auspep Holdings**") and Australian Regional Airports Pty Ltd ("**ARA**").

Investee Companies

I am pleased to report that the net assets of the SDF economic entity have increased by \$3,046,523 or 47.6% to \$9,471,456 in the year ending 30 June 2005. SDF has seen its investment in ARA, a regional airport investment and management company, increase in value. SDF has an effective 33.81% interest in the Burnie Airport Corporation Unit Trust ("**BAC**"), which owns 100% of the Burnie Wynyard Airport located in Northwest Tasmania. For the 12 months period ended 30 June 2005, BAC recorded total revenues of \$1,292,782, which is 16.3% above last years' result. Passenger fees were up 10.2% to \$1,033,164 in the same period, while passenger movements totalling 95,168 increased 2.7% over 2004. The directors are satisfied with these results considering the introduction of low cost carriers Jetstar and Virgin to competing airports such as Launceston.

At the beginning of the financial year SDF had subscribed to 90% of the shares of Auspep Holdings Limited at 25 cents per share. This company owns 100% of Auspep Pty. Ltd. ("**Auspep**"), an established Australian manufacturer and distributor of synthetic peptides. During the course of the year SDF sold 2,787,000 shares at 35 cents per share raising \$975,450 and reducing its holding in the company to 76%. Although the Board of SDF had hoped to seek ASX listing of Auspep Holdings in 2004-5, the advice received by the Board was to focus first on the commissioning of the Good Manufacturing Plant ("**GMP**") facility, which should result in a significant increase in revenue. The group's main operating company Auspep recorded revenue in 2005 of \$2,939,906 with EBITDA of \$405,129.

Auspep is on track to commission its GMP facility at Tullamarine Victoria in October/ November 2005. This plant will produce synthetic peptides for use in clinical trials. Currently, there is no GMP facility in Australia specialising in the manufacture of therapeutic grade peptides.

Corporate Governance

Pooled Development Funds ("**PDF's**") are held to be specialist investment companies where the Board is empowered to make investment decisions on behalf of its shareholders. SDF recognises that good corporate governance is fundamental to managing a successful business. The company applied for and was granted in November 2004 an Australian Financial Services Licence in line with the Australian Securities and Investment Commissions implementation of its Financial Services Reform regime.

The Board

The end of the 2005 financial year saw the retirement of SDF Chairman Sir Laurence Muir. The Board appreciates the commitment and effort of Sir Laurence in steering SDF through its listing and the development of the fund in the last 2 years. The Board of SDF is reviewing its investment strategy and looks to maximise the capital value of its investments for SDF shareholders through appropriate and timely exit strategies of its investee companies.

On behalf of my Board I thank you for your continuing support.

Yours sincerely

A handwritten signature in black ink, reading "Legh Davis". The signature is written in a cursive style, with the first name "Legh" and the last name "Davis" clearly distinguishable.

Legh Davis
Chairman

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**STATE DEVELOPMENT FUND LIMITED
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DIRECTORS' REPORT

Your directors present their report on the company and its controlled entities for the financial year ended 30 June 2005

Directors

The names of directors in office at any time during or since the end of the financial year are:

Sir Laurence MacDonald Muir (Appointed 30/7/2002, retired 30/6/2005)

Lekh Hewitson Davis (appointed 30/07/02)

John Andreas Nissen (appointed 5/07/00)

Peter King (appointed 5/07/00)

Michael David McDonald (appointed 5/07/00)

Dr Andrew Ludekens (appointed 8/12/03)

At the 30th June 2005 Sir Laurence Muir retired as Chairman of SDF. Sir Laurence was succeeded by Lekh Davis as Chairman. The Board acknowledges the services performed by Sir Laurence in the time he served as Chairman of SDF. Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Principal Activities

The principal activities of the economic entity during the financial year were:

- Acting as a PDF providing financial and management support for investee companies of SDF
- Provide patient equity capital for its shareholders through investment in small to medium Australian companies across a diverse range of industries

The following significant changes in the nature of the principal activities occurred during the financial year:

The Company was granted an Australian Financial Services Licence on the 1st November 2004 (Licence No 278742). In line with the Australian Securities and Investment Commissions implementation of the Financial Services Reform regime, Pooled Development Funds ("PDF's") are held to be specialist investment companies where the Board is empowered to make investment decisions on behalf of its shareholders. Although there is no specific AFS licence for a PDF, SDF notes that the Corporations Act (PF209, clause 1) defines PDF's as providing financial product advice in securities as well as dealing in financial products by issuing, applying for, acquiring, varying or disposing of securities.

Results from Operations

The consolidated loss of the economic entity for the financial year after providing for income tax and eliminating outside equity interests amounted to \$237,039.

Review of Operations

A review of the operations of the economic entity during the financial year and the results of those operations found that during the year, the economic entity continued to engage in its principal activity, the results of which are disclosed in the attached financial statements.

In the last financial year, SDF sold 2,787,000 shares of its 18 million share holding in Auspep Holdings at 35 cents per share reducing its overall shareholding from 90% to 76%. The profit from the sale of the shares amounted to 10 cents per share for a total of \$278,700 after realising gross proceeds of \$975,450.

**STATE DEVELOPMENT FUND LIMITED
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DIRECTORS' REPORT (Cont'd)

Australian Regional Airports Pty Ltd

Prior to 1987, the Commonwealth Government owned regional airports. Pursuant to a divestment plan known as the Local Ownership Plan, the Commonwealth divested its interest in regional airports by granting ownership of them to Local Councils and Port Authorities. This process has seen a fragmentation of the skills required to operate and manage these airports with only a few of the airports enjoying significant success. The Local Councils and Port Authorities have acknowledged difficulties in the proactive management of regional airports. This provides an opportunity for ARA with its aviation, corporate and property experience to fill the void left as a result of the Local Ownership Plan legacy.

The main drivers of regional airport revenues are increasing passenger numbers and aircraft movements. The numbers of passengers passing through these gateway airports determines retail revenues. On the other hand, revenue from regulated aeronautical services is derived from aircraft movements, which is defined by the type and number of aircraft landing.

Figure 1 outlines SDF's ownership of 69% of ARA, which in turn owns 49% of the BAC, the 100% owner of the business and assets of the Burnie Wynyard Airport. This means SDF has an effective 33.81% interest in the BAC.

For the 12 months period ended 30 June 2005, BAC recorded total revenues of \$1,292,782, 16.3% in advance of last years' revenue. Passenger fees were up 10.2% to \$1,033,164 in the same period with passenger movements of 95,168 up by 2,493 or 2.7% on 2004.

A valuation undertaken by Rawlinsons in October 2004, on behalf of BAC, valued the airport activities of BAC at between \$5.6 - \$5.8 million. This valuation excludes the value of the industrial and residential land owned by BAC. A valuation carried out by a Tasmanian government department pursuant to the Valuation of Land Act valued the aerodrome property owned by BAC at \$7 Million. BAC acquired the business and assets of the Burnie Wynyard Airport on 1 February 2002 for \$2.5 million.

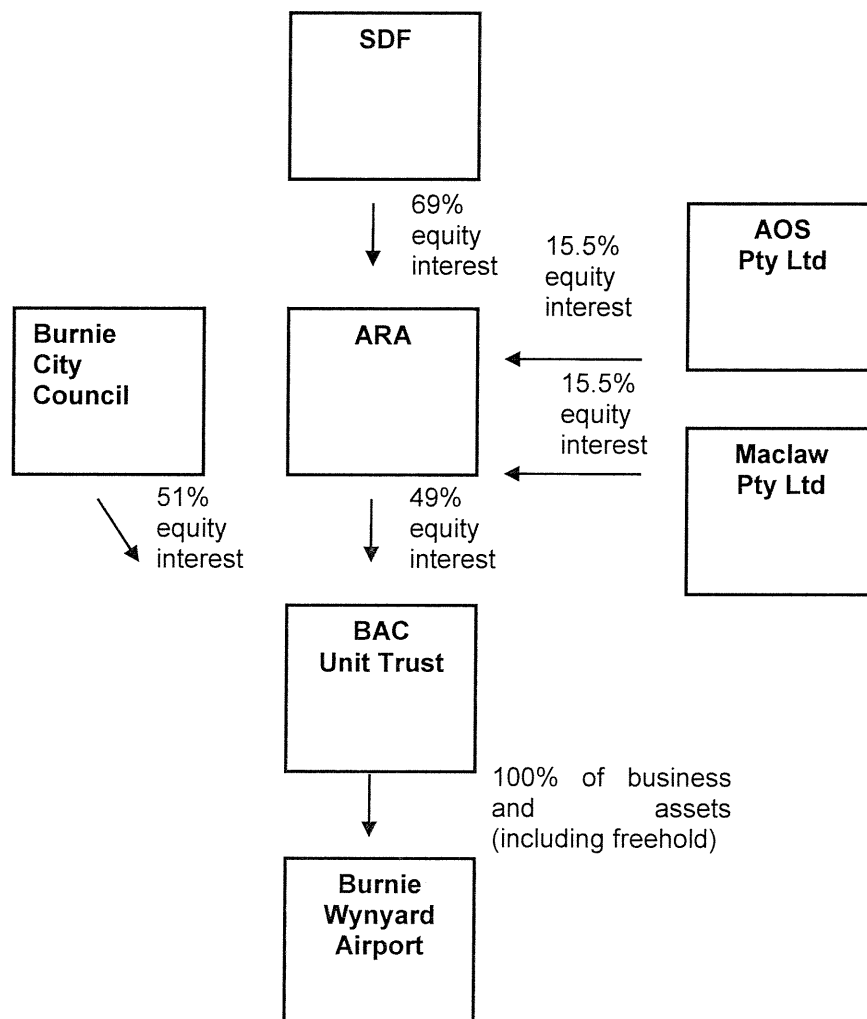
Revenue of BAC is generated from passenger and freight levies, landing charges and property management and development. The Burnie Wynyard Airport comprises approximately 223 hectares of land, all of which was rezoned for industrial use as an outcome of the Waratah-Wynyard planning scheme review. BAC has designated 64.61 hectares of this land for immediate industrial development and 7.2 hectares for residential development subject to Council planning permission.

Industrial development continues on the rezoned land. The first industrial developer Vestas Wind Systems (Vestas), a major Danish manufacturer of wind turbines, has constructed a \$15 million assembly plant on approximately 5 hectares of airport land provided by BAC. Other spin off businesses and opportunities for the industrial park are currently being contemplated.

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DIRECTORS' REPORT (Cont'd)

Figure 1 ARA Shareholding Structure



**STATE DEVELOPMENT FUND LIMITED
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DIRECTORS' REPORT (Cont'd)

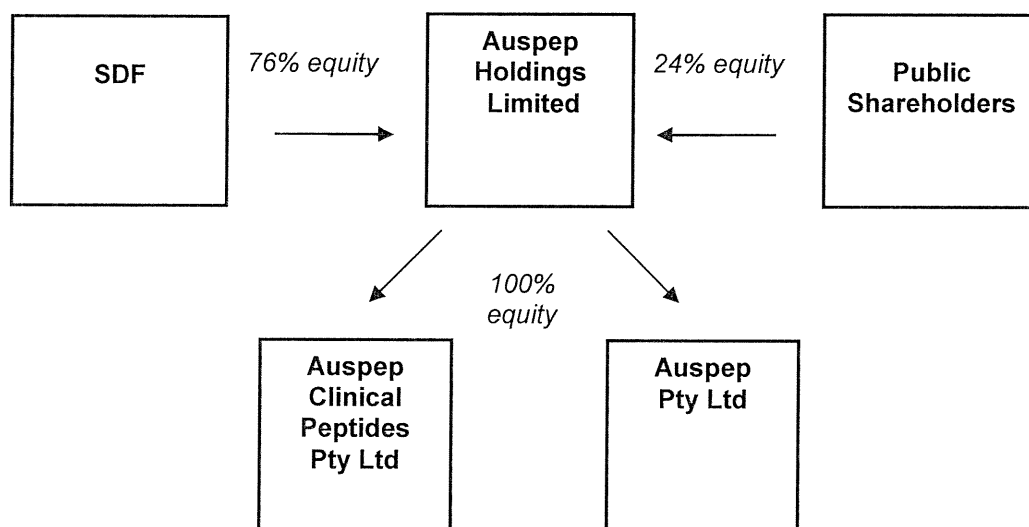
Auspep Holdings Limited

SDF owns 76% of the share capital in Auspep Holdings. Its corporate structure is outlined in Figure 2. Auspep recorded sales revenue of \$2,883,843 and a net loss from ordinary activities after tax of \$180,689. The earnings result for Auspep Holdings is reduced due to the amortisation of goodwill from the parent entity to its subsidiaries. In 2004-5, 31% of revenue was derived from exports. Auspep, the operating entity 100% owned by Auspep Holdings, and responsible for the manufacture and distribution of synthetic peptides, achieved EBITDA of \$405,129 based on revenue of \$2,939,906.

Synthetic peptides are important to the rapidly growing biotechnology industry. They are in high demand for use in both research and commercial drug development, including testing as potential pharmaceuticals in human clinical trials and testing new hormones and vaccines for use with animals. Where peptides show therapeutic benefits, they can be developed into drugs.

Potential applications of therapeutic peptides include the treatment of cancer, diabetes, osteoporosis and more rapid repair of human wounds and tissues. Peptides are promising drug candidates because they are potent, specific and have low toxicity as outlined below in Figure 3.

Figure 2: Auspep Shareholding Structure



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DIRECTORS' REPORT (Cont'd)

Figure 3: The Chemical and Physical Properties of Peptides

Peptides Pros and Cons	
Advantages	Disadvantages
High Activity High Specificity Little unspecific binding to molecular structures other than desired target Minimization of drug-drug interactions Less accumulation in tissue Lower toxicity Often very potent Biological and chemical diversity	Low oral Bioavailability Injection Required Less Stable Difficult delivery; challenge to transport across membranes Challenging and costly synthesis Solubility challenges Risk of immunogenic effects Cleared from body quickly

Auspep has assembled a team of skilled professionals at its manufacturing and administration complex in West Melbourne, Victoria. Auspep became certified to the ISO9002 quality system in 1996. This reinforced Auspep's commitment to a quality system that provides enhanced productivity, product quality and customer service. Auspep is recognised both locally and globally for its expertise in producing commercially viable peptides. Auspep's customer base includes major Australian and international research institutions and biotechnology companies.

The company was established in 1986 and has over this time generated in non-GMP business revenues reaching approximately \$2.9 million per annum, including an export business, which has risen to 31% of the company's revenues over the last 5 years.

In the last financial year Auspep has been constructing a GMP accredited manufacturing facility with an estimated completion date in October 2005. This new plant is located on leased premises at Tullamarine in Victoria. The granting of GMP accreditation will have a significant and positive effect on Auspep's business. The company has applied for TGA (Australia) certification for its manufacturing process and intends subsequently to apply for CE (Europe) followed by FDA (USA) approvals. GMP approved peptides are a key driver of Auspep's growth as they enable peptides to be supplied for human clinical trials. The market for GMP quality peptides is growing and offers higher revenue opportunities when compared to non-GMP catalogue and custom peptides.

The other current objectives of the Board of Auspep Holdings are:

- To move forward with profitable products, such as custom synthesis and catalogue peptides, and services targeted to specific market segments; and
- To establish a global distribution network for custom synthesis, catalogue peptides and GMP manufactured products.

SDF's overall objective for Auspep Holdings is for the company to become a globally focused supplier of synthetic peptides for research and drug development. SDF announced to the market in August 2004, that it will seek ASX listing for its subsidiary Auspep Holdings.

**STATE DEVELOPMENT FUND LIMITED
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DIRECTORS' REPORT (Cont'd)

Financial Position

The net assets of the economic entity have increased by \$3,058,158 from 30 June 2004 to \$9,483,082 in 2005. This increase has largely resulted from Increase in land valuation of the Burnie Wynyard Airport carried out by the Tasmanian government department pursuant to the Valuation of Land Act in June 2005. This has resulted in an appreciation of the consolidated entities net assets with a net movement in the value of their equity accounted investments from \$1,185,349 in 2004 to \$4,013,792 in 2005.

The directors believe the investment in Auspep Holdings infrastructure and plant will take advantage of the growth in the global peptide market.

A review of the operations of SDF during the financial year and the results of those operations found that during the year, SDF in its principal activities, returned the results disclosed in the attached financial statements.

Significant Changes in State of Affairs

The following significant changes in the state of affairs of the parent entity occurred during the financial year:

- i. The Chairman of SDF Sir Laurence Muir retired on 30 June 2005. Sir Laurence was succeeded as Chairman by the Deputy Chairman Legh Davis.
- ii. On 2 November 2004, SDF was issued with an Australian Financial Services Licence (Licence # 278242)

Changes in controlled entities and divisions:

- i. Sale of 2,787,000 shares of Auspep Holdings reducing SDF's investment to 15,213,000 shares equivalent to 76% of the company's issued capital.

After Balance Date Events

No other matters or circumstances have arisen since the end of the financial year which have significantly affected or may significantly affect the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity in future financial years.

Future Developments, Prospects and Business Strategies

The Board of SDF expects to list Auspep Holdings following the commissioning of the GMP facility and after the necessary regulatory approvals have been granted. These developments, together with the current strategy of continuous improvement and an adherence to quality control in existing markets, are expected to assist in the achievement of SDF's long-term goals and development of new business opportunities.

Environmental Issues

The economic entity complies with all significant regulations in relation to its disposal of waste materials as regulated under Commonwealth or of a State or Territory law.

**STATE DEVELOPMENT FUND LIMITED
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DIRECTORS' REPORT (Cont'd)

Information on Directors

Sir Laurence MacDonald Muir, VRD, LLB, FSIA, FAIM – Chairman (retired 30th June 2005)

Age – 80

Sir Laurence was senior partner of Potter Partners, now UBS Warburg, before retiring after a 30-year career in the capital markets. Since retirement from Potter Partners, Sir Laurence has served on many corporate boards including the ANZ Banking Group Limited, The Herald and Weekly Times Limited, Alcoa of Australia Limited, National Commercial Union Limited, Australian Consolidated Industries Limited, Air Liquide Limited and Hudson Conway Limited. Sir Laurence is currently a member of the Boards of Publishing and Broadcasting Limited, Crown Limited and Focus Publishing Pty Ltd. He is Patron of the Baker Medical Research Institute, the Microsurgery Research Foundation and the Earthwatch Institute. Member of the Audit and Compliance Committee and Nomination and Remuneration Committee.

Lekh Hewitson Davis, LLB, B.EC, FCPA, FSIA – Chairman (appointed 30th June 2005)

Age – 64

– Non-Executive Director until 30 June 2005

Mr Davis was elected to represent the Liberal Party in the Legislative Council in 1979 and retired at the South Australian State Election held in February 2002. During his term in Parliament he was Deputy Leader of the Opposition in the Legislative Council and was party spokesman in a number of portfolio areas. Mr Davis specialised in economic and financial issues and also small business.

After completing four years as a lecturer in Law and Economics at the South Australian Institute of Technology, Mr Davis became an Investment Advisor with AC Goode and Co. and was appointed State Manager in 1978. He remained there until 1990, when he became a consultant to Todd Partners, now a part of the ABN Amro Morgans national network. Mr Davis is currently State Chairman of ABN-AMRO Morgans in South Australia and is a Board member of Artbank. Mr Davis is a former State President of the Securities Institute of Australia. Member of the Audit and Compliance Committee and Chairman of the Nomination and Remuneration Committee.

Peter King, LL.B – Non-Executive Director

Age – 68

Mr King was a partner with the Melbourne law firm, Home Wilkinson and Lowry, over a legal career spanning 25 years. His field of legal expertise was commercial, industrial, technology and international entertainment law. In 1985 he left the law to pursue business interests.

John Andreas Nissen – Non-Executive Director

Age – 57

Mr Nissen has over 30 years experience in stockbroking beginning his career with Geoffrey Webb & Co in Melbourne, which subsequently merged with Potter Partners, and is now a part of UBS Warburg. After international experience in London, Mr Nissen became a partner of McCaughan Dyson and Company for 5 years. During this time he was involved in the establishment of the corporate finance department at McCaughan Dyson, which specialised in capital raisings and initial public offerings. McCaughan Dyson was acquired by the ANZ Banking Group in 1989, now ANZ Securities Limited.

Since 1989, Mr Nissen has been involved in the resort hospitality industry. He is currently a director and/or manager of four timeshare resorts in Australia with a combined ownership base of approximately 11,000 members.

Mr Nissen is a director of ARA and a minority shareholder of Auspep Holdings Limited. Member of the Nomination and Remuneration Committee.

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DIRECTORS' REPORT (Cont'd)

Michael David McDonald, BA, LL.B – Non-Executive Director

Age – 48

Mr McDonald is the principal of the Melbourne law firm, McDonald and Associates. He practises in commercial, intellectual property and trade practices law, specialising in licensing and commercialisation of intellectual property.

Mr McDonald has also had legal experience in the aviation sector, acting for a major airport consultancy and a local government authority, specifically advising on the acquisition of a substantial regional airport.

In addition, Mr McDonald practises in Philippine law and served for five years as the Honorary Consul-General for the Philippines based in Victoria. He was also president of the Australia Philippines Business Council for 3 years from 1997 to February 2000.

Dr Andrew Ludekens BMMS ASIA – Non-Executive Director

Age – 36

Dr Ludekens is a general practitioner who completed his medical studies at Melbourne University in 1993. He is currently Managing Director of Lotus Capital Group Pty Ltd, a private equity investment group of companies founded by Dr Ludekens. He is also Managing Director of Diamond Property Services Pty Ltd, a commercial cleaning company that has been recognised by the Officeworks small business awards.

Directorships of other listed companies

Directorships of other listed companies held by the directors in the 3 years immediately before the end of the financial year are as follows.

Name:	Company:
Laurence Muir	Publishing and Broadcasting Limited (since 2003)
John Nissen	Poltech International (2003-2005)
	Cendant Australasia Limited (2004)
Peter King	Poltech International (2003-2005)
Michael McDonald	Poltech International (2003)

Company Secretary

Robert Payne B.Sc. (Hons), Ph.D

Dr Payne is Chief Executive officer of the company

Directors' Shareholdings

The following table sets out each Directors' relevant interest in shares or options in shares as at the date of this report

Fully Paid Shares

Laurence Muir	24,000
Legh Davis	16,000
John Nissen	10,001,400
Peter King	5,001,400
Michael McDonald	1,820,000
Dr Andrew Ludekens	2,000,000

None of the Directors hold options over shares in the company

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DIRECTORS' REPORT (Cont'd)

Remuneration Policy

The Board sets remuneration at a level that will attract directors and executives of high calibre. The two key elements are base salary, which is determined by reference to the market rate based on payments made at similar sized companies in the industry and performance benefits. Although the Board believes that the use of performance incentives ensures that company performance is reflected in the quantum of payments paid to executives and that performance metrics are selected to ensure that the interests of management are aligned with shareholders, there were no bonuses paid or performance measures in place to executives in the 2005 financial year.

Remuneration Report

This report details the nature and amount of remuneration for each director of SDF and for the executives receiving the highest remuneration. Directors of SDF have elected not to receive remuneration to conserve capital in the formative years of the company. The nature and amount of remuneration for the SDF executives is detailed in this report.

The remuneration committee, comprised of LM Muir and J Nissen, reviewed the salary package of its Chief executive officer and compensation arrangements of the non-executive directors. Any changes are approved by the board as a whole.

Director and Executive Details

The directors of SDF during the year were:

LM Muir (Chairman, non executive, retired 30/6/2005)
L Davis (Deputy Chairman, non executive, elected chairman 30/6/2005)
J Nissen (Non-Executive)
P King (Non-Executive)
M McDonald (Non-Executive)
A Ludekens (Non-Executive)

The company executives during the year were:

R Payne, Chief Executive Officer, State Development Fund Limited
C Chandler, Managing Director, Auspep Holdings Limited

Details of Remuneration for Year Ended 30 June 2005

The remuneration packages for each director and the specified executives of the consolidated entity contain the following key elements:

1. Primary Benefits - salaries
2. Post Employment Benefits - superannuation
3. Equity - share options and fully paid ordinary shares

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DIRECTORS' REPORT (Cont'd)

The following table discloses the remuneration of the directors of the company

Directors	Year	Primary			Post Employment	Equity		Total
		Salaries	Bonus	Non-monetary	Superannuation	Fully Shares	Paid Options	
		\$	\$	\$	\$	\$	\$	\$
LM Muir	2004	0	0	0	0	0	0	0
	2005	0	0	0	0	0	0	0
L Davis	2004	0	0	0	0	0	0	0
	2005	0	0	0	0	0	0	0
J Nissen	2004	0	0	0	0	0	0	0
	2005	0	0	0	0	0	0	0
P King	2004	0	0	0	0	0	0	0
	2005	0	0	0	0	0	0	0
M McDonald	2004	0	0	0	0	0	0	0
	2005	0	0	0	0	0	0	0
A Ludekens	2004	0	0	0	0	0	0	0
	2005	0	0	0	0	0	0	0
		0	0	0	0	0	0	0

The following table discloses the remuneration of the executives of the company

Specified Executives	Year	Primary			Post Employment	Equity		Total
		Salaries	Bonus	Non-monetary	Superannuation	Fully Shares	Paid Options	
		\$	\$	\$	\$	\$	\$	\$
Dr R Payne	2004	147,030	50,000	0	21,963	0	20,000	238,993
	2005	150,959	0	0	13,586	0	18,889	183,434
Dr C Chandler	2004	125,865	0	0	11,874	0	0	137,739
	2005	119,000	0	0	11,926	0	0	130,926
	2004	272,895	50,000	0	33,837	0	20,000	376,732
	2005	269,959	0	0	25,512	0	18,889	314,360

Options

No options over issued shares or interests in the economic entity were granted by the company during or since the end of the financial year. At the date of this report the un-issued ordinary shares under option are as follows:

Executives:

	Number of options	Number of ordinary shares under option	Issuing entity
R Payne	1,000,000	1,000,000	State Development Fund Ltd

There were no options exercised during or since the end of the year.

**STATE DEVELOPMENT FUND LIMITED
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DIRECTORS' REPORT (Cont'd)

Options Issued as Part of Remuneration for the Year Ended 30 June 2005

Options are issued to the R Payne of SDF as part of his remuneration. The options are not issued based on performance criteria, but are issued to increase goal congruence between R Payne, directors and shareholders. He is entitled to 1,000,000 options for no cash consideration. He is entitled to exercise one third of these options on 4/6/04, one third on 4/6/05 and the last third on 4/6/06. The options are exercisable at 25 cents each and each option entitles R Payne to one share and all options expire on 4/6/08. No options were exercised in the 2004-5 financial year. The board of SDF has elected not to hold options in SDF.

The following table discloses options issued to directors and executives of the company

	Opening balance 1 July 2004	Granted as Remuneration	Options exercised	Net Change other	Closing balance 30 June 2005	Vested at period end	Not able to be exercised	Exercisable
Directors								
L M Muir	-	-	-	-	-	-	-	-
L Davis	-	-	-	-	-	-	-	-
J Nissen	-	-	-	-	-	-	-	-
P King	-	-	-	-	-	-	-	-
M McDonald	-	-	-	-	-	-	-	-
A Ludekens	-	-	-	-	-	-	-	-
Executives								
R Payne	1,000,000	-	-	-	1,000,000	666,666	333,333	666,666
C Chandler	-	-	-	-	-	-	-	-

Dividends Paid / Recommended

The Directors have not recommended a final dividend and no interim dividend was paid during the period.

Employment Contracts of Directors and Senior Executives

The employment conditions of the Chief Executive Officer is formalised in a contract of employment. The Chief Executive Officer is a permanent employee of State Development Fund Limited. The Chief Executive Officer is employed under contract, which commenced on 21 August 2001.

Meetings of Directors

During the financial year, 17 meetings of directors (including committees of directors) were held. Attendances by each director during the year were:

**STATE DEVELOPMENT FUND LIMITED
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DIRECTORS' REPORT (Cont'd)

	Directors' Meetings		Committee Meetings			
			Audit and Compliance Committee		Nomination and Remuneration Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Specified Directors						
Sir Laurence Muir	14	14	2	2	1	1
Legh Davis	14	13	-	-	-	-
John Nissen	14	13	-	-	1	1
Peter King	14	12	-	-	-	-
Michael McDonald	14	5	-	-	-	-
Dr Andrew Ludekens	14	13	-	-	-	-
Specified Executive						
Dr Robert Payne	14	14	2	2	1	1
External Compliance Consultant	-	-	2	2	-	-

Indemnifying Officers or Auditor

During or since the end of the financial year the company has given an indemnity or entered an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

The company has entered into an agreement to indemnify directors and officers of SDF against any liability arising from claims brought by a third party against the company.

The company has paid premiums to insure all directors and officers of SDF against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director of the company, other than conduct involving a willful breach of duty in relation to the company.

Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

Non-audit Services

The board of directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The following amounts were paid and are payable to PKF for non audit services provided by the auditor:

Tax Compliance	\$6,765
Special Audit of Specific accounting records	\$4,285
Due Diligence Services	<u>\$17,136</u>
Total	<u>\$28,186</u>

The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the Board of Directors prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and CPA Australia's Professional Statement F1: Professional Independence. "

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DIRECTORS' REPORT (Cont'd)

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2005 has been received and can be found on page 43 of the directors' report.

Corporate Governance and Best Practice

The Board is aware of the proposed changes to the ASX Corporate Governance guidelines.

In keeping with SDF's commitment to fulfilling its corporate governance guidelines, the company applied for and has been granted an Australian Financial Services Licence (AFSL# 278742) in the current financial period. In line with the Australian Securities and Investment Commissions implementation of the Financial Services Reform Regime, PDF's are held to be specialist investment companies where the Board is empowered to make investment decisions on behalf of its shareholders. An AFS Licence is required when a company gives financial product advice and/or deals in financial products.

In relation to its obligations both to the requirements of the AFS license and to good corporate governance, the Board has created an Audit and Compliance Committee, a Remuneration and Nomination Committee, Risk Management policies, Organisational Expertise processes, outsourcing arrangements, Human Resources policies and Financial Management policies. The committees mentioned are guided by their individual Charters in conjunction with the constitution of the company.

The Audit and Compliance Committee has authority to investigate any activity of the company and its subsidiaries. The primary objective of the committee is to assist the Board to discharge its responsibilities, in particular, with regard to facilitating the independence and completeness of the external audit process, compliance to requirements of the BSX listing rules, Corporations Act and PDF Act, and directing the internal audit function ensuring maximum value for the company. The Charter sets out specific responsibilities delegated by the board to the Audit and Compliance Committee and provides support for the manner in which the Committee will operate. The committee consists of one independent director, the company secretary and an external compliance consultant.

Similarly, The Remuneration and Nomination Committee has been developed to assist the Board in particular with regard to advising on nominations for Directorship appointments and ensuring that appropriate procedures exist to assess the performance and remuneration levels of all Board members and management. The committee consists of two independent directors and the company secretary.

Signed in accordance with a resolution of the Board of Directors.



Legh Davis
Chairman and Director

Dated this 30th day of September 2005



STAT05/AUD

Chartered Accountants
& Business Advisers

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The Directors
State Development Fund Limited
Suite 122D
530 Little Collins Street
MELBOURNE VIC 3000

Dear Sirs

As lead engagement partner for the review of State Development Fund Limited for the year ended 30 June 2005, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the Corporations Act in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink, appearing to read 'R A Dean', with a long horizontal flourish extending to the right.

R A Dean
Partner
PKF
Chartered Accountants

30 September 2005
Melbourne

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2005**

	Note	Economic Entity		Parent Entity	
		2005	2004	2005	2004
		\$	\$	\$	\$
Revenue from ordinary activities	2	3,994,288	2,785,619	994,806	3,788
Cost of sales		(1,738,428)	(1,715,422)	-	-
Administration expenses		(1,244,038)	(1,197,699)	(473,299)	(449,210)
Borrowing Costs		(9,861)	(4,446)	(1,430)	(989)
Marketing expenses		(569,460)	(550,435)	(3,684)	-
Occupancy expenses		(119,332)	(76,723)	(24,252)	(18,573)
Carrying Value of Investments Sold		(696,750)	-	(696,750)	-
Share of Net Profit of associate accounted for using the equity method		143,608	89,326	-	-
Loss from ordinary activities before income tax expense		(239,973)	(669,780)	(204,609)	(464,984)
Income tax expense/(benefit) relating to ordinary activities	4	12,960	(14,897)	-	-
Loss from ordinary activities after related income tax benefit	3, 16	(252,933)	(654,883)	(204,609)	(464,984)
Net (profit)/loss attributable to outside equity interest		15,894	(2,063)	-	-
Net Loss attributable to the members of State Development Fund Limited		(237,039)	(656,946)	(204,609)	(464,984)
Increase in asset revaluation reserve arising from revaluation of non current assets of associate		1,856,694	-	-	-
Total changes in equity other than those resulting from transactions with owners as owners attributable to members of State Development Fund Limited	16	1,619,655	(656,946)	(204,609)	(464,984)
Basic and diluted earning per share - cents	23	(0.73)	(2.19)	-	-

The accompanying notes form part of these financial statements.

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2005**

	Note	Economic Entity		Parent Entity	
		2005 \$	2004 \$	2005 \$	2004 \$
CURRENT ASSETS					
Cash assets	6	914,475	595,860	712,312	79,073
Receivables	7	387,752	589,851	119,001	318,400
Inventories		153,663	179,114	-	-
Prepayments		-	11,627	-	11,627
TOTAL CURRENT ASSETS		<u>1,455,890</u>	<u>1,376,452</u>	<u>831,313</u>	<u>409,100</u>
NON-CURRENT ASSETS					
Other financial assets	8	-	-	4,803,250	5,500,000
Investments accounted for using the equity method	9	4,013,792	1,185,349	-	-
Plant and equipment	10	868,010	533,802	4,770	7,545
Intangible assets	11	3,882,103	4,158,254	-	-
Tax assets	4	51,617	51,250	-	-
TOTAL NON-CURRENT ASSETS		<u>8,815,522</u>	<u>5,928,655</u>	<u>4,808,020</u>	<u>5,507,545</u>
TOTAL ASSETS		<u>10,271,412</u>	<u>7,305,107</u>	<u>5,639,333</u>	<u>5,916,645</u>
CURRENT LIABILITIES					
Payables	12	508,523	672,695	308,102	381,553
Interest bearing liabilities	13	77,931	18,005	-	-
Provisions	14	127,740	114,279	3,665	27,915
Tax Liabilities	4	24,445	11,118	-	-
TOTAL CURRENT LIABILITIES		<u>738,639</u>	<u>816,097</u>	<u>311,767</u>	<u>409,468</u>
NON-CURRENT LIABILITIES					
Interest bearing liabilities	13	25,513	36,980	-	-
Provisions	14	24,178	27,106	-	-
TOTAL NON-CURRENT LIABILITIES		<u>49,691</u>	<u>64,086</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES		<u>788,330</u>	<u>880,183</u>	<u>311,767</u>	<u>409,468</u>
NET ASSETS		<u>9,483,082</u>	<u>6,424,924</u>	<u>5,327,566</u>	<u>5,507,177</u>

The accompanying notes form part of these financial statements.

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2005**

	Note	Economic Entity		Parent Entity	
		2005	2004	2005	2004
		\$	\$	\$	\$
Parent Entity Interest					
Contributed equity	15	6,600,557	6,575,557	6,600,557	6,575,557
Asset revaluation reserve	16(a)	2,227,516	370,822	-	-
Accumulated losses	16(b)	(1,520,577)	(1,283,537)	(1,272,991)	(1,068,380)
TOTAL PARENT ENTITY INTEREST		<u>7,307,496</u>	<u>5,662,842</u>	<u>5,327,566</u>	<u>5,507,177</u>
TOTAL OUTSIDE EQUITY INTEREST	17	<u>2,175,586</u>	<u>762,082</u>	<u>-</u>	<u>-</u>
TOTAL EQUITY		<u>9,483,082</u>	<u>6,424,924</u>	<u>5,327,566</u>	<u>5,507,177</u>

The accompanying notes form part of these financial statements.

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2005**

	Note	Economic Entity		Parent Entity	
		2005 \$	2004 \$	2005 \$	2004 \$
CASH FLOW FROM OPERATING ACTIVITIES					
Receipts from customers		3,168,292	3,137,021	211,026	-
Payments to suppliers and employees		(3,448,345)	(3,226,759)	(569,709)	(207,422)
Interest received		20,759	3,925	19,356	3,788
Borrowing Costs		(9,861)	(4,446)	(1,430)	(989)
Distribution Received		89,326	7,975	-	-
Income Tax Paid		-	(5,136)	-	-
Net cash used in operating activities	18 (b)	(179,829)	(87,420)	(340,757)	(204,623)
CASH FLOW FROM INVESTING ACTIVITIES					
Proceeds from the sale of property, plant and equipment		22,800	-	-	-
Payment for property, plant and equipment		(464,965)	(249,615)	(1,454)	(6,984)
Proceeds from the sale of investments		975,450	-	975,450	-
Payment for investments		(83,300)	-	-	-
Net cash provided by(used in) investing activities		449,985	(249,615)	973,996	(6,984)
CASH FLOW FROM FINANCING ACTIVITIES					
Net proceeds from share issue		-	805,538	-	805,538
Repayments of borrowings		(11,562)	(142,393)	-	(632,139)
Net cash provided by financing activities		(11,562)	663,145	-	173,399
Net increase/(decrease) in cash held		258,594	326,110	633,239	(38,208)
Cash at the beginning of the financial year		595,860	269,750	79,073	117,281
Cash at the end of the financial year	18 (a)	854,454	595,860	712,312	79,073

The accompanying notes form part of these financial statements.

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers State Development Fund Limited as an individual entity and State Development Fund Limited and controlled entities as an economic entity. State Development Fund Limited is a company limited by shares, incorporated and domiciled in Australia.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) Principles of Consolidation

A controlled entity is any entity controlled by State Development Fund Limited. Control exists where State Development Fund Limited has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with State Development Fund Limited to achieve the objectives of State Development Fund Limited. Details of the controlled entities are contained in Note 19.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation.

Where a controlled entity has entered or left the economic entity during the year its operating results have been included from the date control was obtained or until the date control ceased.

(b) Investments

Non-current investments are measured on the cost basis. The carrying amount of investments is reviewed annually by directors' to ensure it is not in excess of the recoverable amount of these investments. The recoverable amount is assessed by reference to the quoted market value for shares in listed companies or the underlying net assets for other non-listed corporations. The expected net cash flows from investments have not been discounted to their present value in determining the recoverable amounts.

(c) Investments in Associates

The equity method of accounting has been applied and recognised in the consolidated financial statements of the economic entity in relation to all associated companies. An associated company is a company over which State Development Fund Limited is able to exercise significant influence.

(d) Plant and Equipment

Each class of plant and equipment is carried at cost less, where applicable, any accumulated depreciation.

Plant and equipment

Plant and equipment is measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by the directors to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have not been discounted to present values in determining recoverable amounts.

Depreciation

The depreciable amount of all fixed assets including capitalised leased assets are depreciated over their estimated useful lives to the economic entity commencing from the time the asset is held ready for use. Properties held for investment purposes are not subject to a depreciation charge.

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

The depreciation rates used for each class of depreciable asset are:

Class of fixed asset	Depreciation rates	Depreciation basis
Motor Vehicle	22.5%	Straight Line
Plant and Equipment	20-33 %	Straight Line
Laboratory Equipment	10-15 %	Straight Line
Furniture and Fittings	7.5-33%	Straight Line

(e) Goodwill

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net tangible assets at date of acquisition. Both purchased goodwill and goodwill on consolidation are amortised on a straight line basis over the period of 20 years. The balances are reviewed annually and any balance representing future benefits the realisation of which is considered to be no longer probable are written off.

(f) Employee Benefits

Provision is made for the economic entity's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year together with benefits arising from wages and salaries, annual leave and sick leave, which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled plus related on-costs. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Contributions are made by the economic entity to an employee superannuation fund and are charged as expenses when incurred.

(g) Cash

For the purposes of the Statement of Cash Flows, cash includes cash on hand and at call deposits with banks or financial institutions, investments in money market instruments maturing within less than two months and net of bank overdrafts.

(h) Revenue

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Other revenue is recognised when the right to receive the revenue has been established.

All revenue is stated net of the amount of goods and services tax (GST).

(i) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

(j) Borrowing Costs

Borrowing costs are recognised as an expense in the year in which they are incurred except borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period to get ready for its intended use or sale. In this case the borrowing costs are capitalised as part of the cost of the asset.

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(k) Leases

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased property, without transferring the legal ownership, and operating leases under which the lessor effectively retains substantially all the risks and benefits.

Where assets are acquired by means of finance leases, the present value of minimum lease payments is established as an asset at the beginning of the lease term and amortised on a straight line basis over the expected economic life. A corresponding liability is also established and each lease payment is allocated between such liability and interest expense.

Operating lease payments are charged to expense on a basis, which is representative of the pattern of benefits derived from the leased property.

(l) Income Tax

The economic entity adopts the liability method of tax-effect accounting whereby the income tax expense based on the profit from ordinary activities is adjusted for any permanent differences.

Timing differences, which arise due to the different accounting years in which items of revenue and expense, are included in the determination of accounting profit and taxable income. These are brought to account either as provision for deferred income tax, or as an asset described as a future income tax benefit, at the rate of income tax applicable to the year in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond any reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit. The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income tax legislation, and the anticipation that the company will derive sufficient future assessable income and comply with the conditions of deductibility imposed by the law to permit a future income tax benefit to be obtained.

(m) Foreign Currency Translation and Balances

Foreign currency transactions during the year are converted to Australian currency at the rates of exchange applicable at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are converted at the rates of exchange ruling at that date.

The assets and liabilities of the overseas controlled entities are integrated foreign operations whereby monetary items are translated at exchange rates current at the transaction dates, or, where a non-monetary item has been revalued, at the exchange rate current at the date of revaluation. Exchange differences arising on translation are brought to account in the profit and loss account.

(n) Receivables

Trade accounts receivable, amounts due from related parties and other receivables represent the principal amounts due at balance date plus accrued interest and less, where applicable, any unearned income and provisions for doubtful accounts.

(o) Accounts Payable

Accounts payable represent the principal amounts outstanding at balance date plus, where applicable, any accrued interest.

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(p) Inventories

Inventories are measured at the lower of cost and net realisable value. Costs are assigned on a first-in first-out basis and include direct materials, direct labour and an appropriate share of variable and fixed overhead expenses. Fixed costs have been allocated on the basis of normal operating capacity.

Net realisable value is determined on the basis of the company's products selling patterns over the past year taking into consideration the minimum pack sizes required to meet normal catalogue requirements. Stock held surplus to these requirements at balance date is provided for in full although still being held in a saleable condition.

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

NOTE 2: REVENUE

	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
Operating activities				
- Sales of Goods	2,897,043	2,781,694	-	-
Non Operating activities				
- Interest	20,759	3,925	19,356	3,788
- Other revenue	101,036	-	-	-
- Proceeds from sale of Investment	975,450	-	975,450	-
Total Revenues from Non-Operating Activities	1,097,245	3,925	-	-
Total Revenue from Ordinary Activities	3,994,288	2,785,619	994,806	3,788

NOTE 3: PROFIT FROM ORDINARY ACTIVITIES

Loss from ordinary activities before income tax expense has been determined after charging:

Gain on Sale of Investment	278,700	-	278,700	-
Gain/(Loss) on Disposal of Property, Plant and Equipment	6,917	-	(229)	-
Depreciation of non-current assets:	114,874	79,303	3,999	3,526
Amortisation of non-current assets:				
- Goodwill	218,146	219,714	-	-
Operating Lease Rental	119,332	76,723	24,252	18,573

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

NOTE 4: INCOME TAX EXPENSE	Note	Economic Entity		Parent Entity	
		2005	2004	2005	2004
		\$	\$	\$	\$

The prima facie tax payable on loss from ordinary activities before income tax is reconciled to the income tax expense as follows:

Prima facie income tax payable/(benefit) on loss from ordinary activities before income tax at:

15%	(33,595)	(70,316)	(33,595)	(70,316)
25%	4,839	-	4,839	
30%	(26,247)	(60,302)	-	1136
	(55,003)	(130,618)	(28,756)	(69,180)

Add tax effect of permanent differences:

Share of associates net profit	-	(26,798)	-	-
Capital expenses	-	1,694	-	1,694
Amortisation of intangible assets	49,343	65,914	-	-
Other non-deducted items	4,647	2,928	2,347	315
Recoupment of prior year tax losses	(24,072)	-	-	-
Timing difference and tax losses not brought to account	38,045	71,983	26,409	67,171
	12,960	(14,897)	-	-

Future income tax benefits arising from tax losses not recognized at balance date as realisation of the benefit is not recognized as virtually certain

178,898	140,853	150,277	123,868
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**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

NOTE 5: REMUNERATION AND RETIREMENT BENEFITS

This note disclosure on director and executive information has been prepared in accordance with the new Accounting Standard AASB 1046 "Directors and Executives Disclosures by Disclosing Entities"

a) Details of Specified Directors and Executives

Name of Individual	Position held	Period of responsibility if less than the full reporting period
Specific Directors:		
LM Muir	Chairman	Retired 30 th June 2005
L Davis	Deputy Chairman	-
J Nissen	Non Executive Director	-
P King	Non Executive Director	-
M McDonald	Non Executive Director	-
A Ludekens	Non Executive Director	From 8 th December 2004
Specific Executives:		
R Payne	Chief Executive Officer SDF	-
C Chandler	Managing Director Auspep Holdings Limited	-

b) Remuneration of specified directors and specified executives

(i) The Remuneration and nomination committee of the Board of Directors of State Development Fund is responsible for determining and reviewing compensation arrangements for the directors, the chief executive officer and the executive team. The remuneration and nomination committee assesses the appropriateness of the nature and the amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

Such officers are given the opportunity to receive their base emolument in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue costs for the company.

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

NOTE 5: REMUNERATION AND RETIREMENT BENEFITS (Cont'd)

(ii) Remuneration of specified directors and specified executives

		Primary	Primary	Post	Equity	Equity	Other	
				Employment				Total
Specified Directors	Year	Salaries and Fees	Bonus	Superannuation	Shares	Options	Other Benefits	
L M Muir	2004	-	-	-	-	-	-	-
	2005	-	-	-	-	-	-	-
L Davis	2004	-	-	-	-	-	-	-
	2005	-	-	-	-	-	-	-
J Nissen	2004	-	-	-	-	-	-	-
	2005	-	-	-	-	-	-	-
P King	2004	-	-	-	-	-	-	-
	2005	-	-	-	-	-	-	-
M McDonald	2004	-	-	-	-	-	-	-
	2005	-	-	-	-	-	-	-
A Ludekens	2004	-	-	-	-	-	-	-
	2005	-	-	-	-	-	-	-
Total Remuneration	2004	-	-	-	-	-	-	-
	2005	-	-	-	-	-	-	-
Specified Executives								
R Payne	2004	147,030	50,000	21,963	-	20,000	-	238,993
	2005	150,959	-	13,586	-	18,889	-	183,434
C Chandler	2004	125,865	-	11,874	-	-	-	137,739
	2005	119,000	-	11,926	-	-	-	130,926
Total Remuneration	2004	272,895	50,000	33,837	-	20,000	-	376,732
	2005	269,959	-	25,512	-	18,889	-	314,360

c) Option holdings of specified directors and specified executives

	Opening balance 1 July 2004	Granted as Remuneration	Options exercised	Net Change other	Closing balance 30 June 2005	Vested at period end	Not able to be exercised	Exercisable
Directors								
L M Muir	-	-	-	-	-	-	-	-
L Davis	-	-	-	-	-	-	-	-
J Nissen	-	-	-	-	-	-	-	-
P King	-	-	-	-	-	-	-	-
M McDonald	-	-	-	-	-	-	-	-
A Ludekens	-	-	-	-	-	-	-	-
Executives								
R Payne	1,000,000	-	-	-	1,000,000	666,666	333,333	666,666
C Chandler	-	-	-	-	-	-	-	-

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

NOTE 5: REMUNERATION AND RETIREMENT BENEFITS (Cont'd)

d) Shareholdings of specified directors and specified executives

	Opening balance 1 July 2004	Granted as remuneration	On exercise of Options	Net Change other	Closing Balance 30 June 2005
Directors					
L M Muir	-	-	-	24,000	24,000
L Davis	-	-	-	16,000	16,000
J Nissen	10,001,400 (i)	-	-	-	10,001,400
P King	5,001,400 (ii)	-	-	-	5,001,400
M McDonald	1,820,000 (iii)	-	-	-	1,820,000
A Ludekens	-	-	-	2,000,000	2,000,000
Executives					
R Payne	-	-	-	-	-
C Chandler	-	-	-	-	-

- (i) 5,000,000 shares have been beneficially held in the name of Prime Endeavour Pty Ltd. 3,502,800 shares have been held in the name of Rhys Securities Pty Ltd.
(ii) 3,502,800 shares have been held in the name of Rhys Securities Pty Ltd.
(iii) 1,200 shares have been beneficially held in the name of Maclaw Pty Ltd

All shareholdings are for ordinary shares in State Development Fund Limited. All equity transactions with specified directors and executives other than those arising from the exercise of remuneration options have been entered into under the terms and conditions no more favourable than those the entity would have adopted if dealing at arms length.

e) Loans to specified directors and specified executives

There are no loans made by the disclosing entity or any of its subsidiaries to any specified director or specified executive, including their personally related entities.

Note	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$

NOTE 6: CASH ASSETS

Cash at bank	914,475	595,860	712,312	79,073
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NOTE 7: RECEIVABLES

CURRENT

Trade Debtors	329,939	339,093	77,000	77,000
Sundry Debtors	57,813	250,758	42,001	241,400
	387,752	589,851	119,001	318,400

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

NOTE 8: OTHER FINANCIAL ASSETS

	Note	Economic Entity		Parent Entity	
		2005	2004	2005	2004
		\$	\$	\$	\$
Auspep Holdings Limited – at cost	19	-	-	3,803,250	4,500,000
Australian Regional Airports Pty Ltd – at cost	19	-	-	1,000,000	1,000,000
		-	-	4,803,250	5,500,000

NOTE 9: INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD

Interest in Associate	Balance Date	Ownership interest held by Consolidated entity		Economic Entity	
		2005	2004	2005	2004
		\$	\$	\$	\$
Burnie Airport Corporation Pty Ltd as Trustee for the Burnie Airport Corporation Unit Trust	30 June	49%	49%	4,013,792	1,185,349

Principal activity

Burnie Airport Corporation Pty Ltd owns and operates Burnie Wynward regional airport in North-West Tasmania.

**Movement in carrying amounts of investments
in associates**

Beginning of year	1,185,349	1,054,998	-	-
Revaluation of land and buildings	2,690,861	49,000	-	-
Share of Associates Net Profit	143,608	89,326	-	-
Distributions Received	(89,326)	(76,575)	-	-
Distributions Reinvested	83,300	68,600	-	-
Closing Value	4,013,792	1,185,349	-	-

Share of associates assets and liabilities

Current assets	318,615	215,699	-	-
Non-current assets	3,766,665	1,860,226	-	-
Current liabilities	(60,021)	(20,697)	-	-
Non-current liabilities	(11,467)	(869,829)	-	-
Net Assets	4,013,792	1,185,399	-	-

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
NOTE 9: INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD (CONT'D)				
Retained Profits of the consolidated entity attributable to associate				
Balance at the beginning of financial year	89,326	76,575	-	-
Share of associates net profit	143,608	89,326	-	-
Distributions received from associate	(89,326)	(76,575)	-	-
Balance at the end of the financial year	143,608	89,326	-	-
Reserves of the consolidated entity attributable to associate				
Balance at the beginning of financial year	537,423	488,423	-	-
Share of associates reserves	2,690,861	49,000	-	-
Balance at the end of the financial year	3,228,284	537,423	-	-
NOTE 10: PLANT & EQUIPMENT				
Motor Vehicles				
At Cost	73,016	95,165	-	-
Less Accumulated Depreciation	(23,220)	(35,443)	-	-
	49,796	59,722	-	-
Leasehold Improvements				
At Cost	245,651	235,836	-	-
Less Accumulated Depreciation	(14,978)	(29)	-	-
	230,673	235,807	-	-
Plant and Equipment				
At Cost	1,775,495	1,345,370	13,540	12,461
Less Accumulated Depreciation	(1,187,953)	(1,107,097)	(8,770)	(4,916)
	587,542	238,273	4,770	7,545
TOTAL PLANT & EQUIPMENT				
At Cost	2,094,161	1,676,374	13,540	12,461
Less Accumulated Depreciation	(1,226,151)	(1,142,572)	(8,770)	(4,916)
	868,010	533,802	4,770	7,545

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

Economic Entity		Parent Entity	
2005	2004	2005	2004
\$	\$	\$	\$

NOTE 10: PLANT & EQUIPMENT CONT.

Movements in Carrying Amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the year.

MOTOR VEHICLES

Balance at beginning of year	59,722	47,010	-	-
Additions	24,650	24,678	-	-
Disposals	(15,653)	-	-	-
Depreciation expense	(18,923)	(11,966)	-	-
Carrying amount at end of year	49,796	59,722	-	-

LEASEHOLD IMPROVEMENTS

Balance at beginning of year	235,807	4,671	-	-
Additions	9,814	231,136	-	-
Depreciation expense	(14,948)	-	-	-
Carrying amount at end of year	230,673	235,807	-	-

PLANT AND EQUIPMENT

Balance at the beginning of the year	238,273	287,132	7,545	4,087
Additions	430,501	18,479	1,454	6,984
Disposals	(230)	-	(230)	-
Depreciation expense	(81,002)	(67,338)	(3,999)	(3,526)
Carrying amount at end of year	587,542	238,273	4,770	7,545

**STATE DEVELOPMENT FUND LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

NOTE 11: INTANGIBLE ASSET	Note	Economic Entity		Parent Entity	
		2005	2004	2005	2004
		\$	\$	\$	\$
Goodwill		4,331,568	4,394,276	-	-
Accumulated Amortisation		(449,465)	(236,022)	-	-
		<u>3,882,103</u>	<u>4,158,254</u>	<u>-</u>	<u>-</u>
NOTE 12: PAYABLES CURRENT					
CURRENT					
Trade creditors		366,490	622,695	259,974	331,553
Deferred tax liabilities		-	-	-	-
Sundry Creditors		142,033	-	48,128	-
Amounts payable to directors		-	50,000	-	50,000
		<u>508,523</u>	<u>672,695</u>	<u>308,102</u>	<u>381,553</u>
NOTE 13 – INTEREST BEARING LIABILITIES					
CURRENT					
Bank Overdraft		60,021	-	-	-
Hire Purchase Liabilities (Secured)	22	17,910	18,005	-	-
		<u>77,931</u>	<u>18,005</u>	<u>-</u>	<u>-</u>
NON-CURRENT					
Hire Purchase liabilities (Secured)	22	25,513	36,980	-	-
Hire purchase liabilities are secured against the assets they are financing					
NOTE 14: PROVISIONS					
Current					
Employee benefits		<u>127,740</u>	<u>114,279</u>	<u>3,665</u>	<u>27,915</u>
Non-Current					
Employee benefits		<u>24,178</u>	<u>27,106</u>	<u>-</u>	<u>-</u>
Aggregate employee benefits					
		<u>151,918</u>	<u>141,385</u>	<u>3,665</u>	<u>27,915</u>
Average number of employees at year end					
		<u>20</u>	<u>20</u>	<u>1</u>	<u>1</u>

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

NOTE 15: CONTRIBUTED EQUITY	Note	Economic Entity		Parent Entity	
		2005	2004	2005	2004
		\$	\$	\$	\$
32,634,000 ordinary shares fully paid (2004:32,534,000)		<u>6,600,557</u>	<u>6,575,557</u>	<u>6,600,557</u>	<u>6,575,557</u>
		2005		2004	
		Number of		Number of	
		Shares	\$	Shares	\$
Beginning of the financial year		32,534,000	6,575,557	27,684,000	5,528,619
Issue of Shares at 25 cents per share (Net of share issue costs of \$165,562)		-	-	4,850,000	1,046,938
Issue of shares to satisfy expenses at 25 cents per share		100,000	25,000	-	-
End of financial year		<u>32,634,000</u>	<u>6,600,557</u>	<u>32,534,000</u>	<u>6,575,557</u>

Terms and conditions of contributed equity

Holders of Ordinary Shares have the right to receive dividends as declared and in the event of the winding up of the company, holders are entitled to participate in the proceeds from sale of all surplus assets in proportion to the number and amount paid up on each share held.

Holders of Ordinary Shares are entitled to one vote, either in person or by proxy, at a meeting of the company.

Share Options

Under his original employee agreement, the Chief executive officer is entitled to 1,000,000 at 25 cents each. The options are unlisted. All options expire on 4/6/08. (See Table below)

Exercise Date	Opening Balance	Shares Exercised	Lapsed	Closing Balance	Exercise Price per share
4/06/2004	333,330	-	-	333,330	\$0.25
4/06/2005	333,330	-	-	333,330	\$0.25
4/06/2006	333,330	-	-	333,330	\$0.25

**STATE DEVELOPMENT FUND LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

NOTE 16: RESERVES & ACCUMULATED LOSSES	Note	Economic Entity		Parent Entity	
		2005	2004	2005	2004
		\$	\$	\$	\$
Asset Revaluation Reserve		2,227,516	370,822	-	-
Accumulated Losses		<u>(1,520,577)</u>	<u>(1,283,537)</u>	<u>(1,272,991)</u>	<u>(1,068,380)</u>

MOVEMENT IN RESERVE

(a) Asset Revaluation

Balance at beginning of year	370,822	337,012	-	-
Share of reserves of associate	1,856,694	33,810	-	-
Balance at end of year	<u>2,227,516</u>	<u>370,822</u>	<u>-</u>	<u>-</u>

The asset revaluation reserve is used to record increments and decrements in the value of non-current assets.

(b) Accumulated Losses

Balance at beginning of year	(1,283,537)	(626,591)	(1,068,380)	(603,396)
Net loss attributable to members of State Development Fund Limited	<u>(237,039)</u>	<u>(656,946)</u>	<u>(204,609)</u>	<u>(464,984)</u>
Balance at end of year	<u>(1,520,577)</u>	<u>(1,283,537)</u>	<u>(1,272,991)</u>	<u>(1,068,380)</u>

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

	Note	Economic Entity		Parent Entity	
		2005 \$	2004 \$	2005 \$	2004 \$
NOTE 17: OUTSIDE EQUITY INTEREST					
Contributed equity		1,232,199	605,124	-	-
Reserves		1,000,768	166,601	-	-
Accumulated losses		(57,381)	(9,643)	-	-
Outside equity interest		<u>2,175,586</u>	<u>762,082</u>	<u>-</u>	<u>-</u>

NOTE 18: CASH FLOW INFORMATION

(a) Reconciliation of cash

Cash at the end of the financial year as shown in the statement of Cash Flows is reconciled to the related items in the statement of financial position as follows:

Cash at bank	914,475	595,860	712,312	79,073
Bank Overdraft	(60,021)	-	-	-
	<u>854,454</u>	<u>595,860</u>	<u>712,312</u>	<u>79,073</u>

(b) Reconciliation of cash flow from operations with loss from ordinary activities after income tax

Loss from Ordinary Activities	(252,933)	(654,883)	(204,609)	(464,984)
- Depreciation	114,874	79,303	3,999	3,526
- Amortisation of goodwill	218,146	219,714	-	-
- Share of Associates Profits	(54,282)	(81,351)	-	-
- Gain on disposal of Asset	(6,917)	-	229	-
- Gain on Disposal of Auspep Shares	(322,212)	-	(278,700)	-
- Share Issues to pay Expenses	25,000	-	25,000	-
-Decrease in Receivables	213,726	65,007	211,026	-
-(Decrease) in Payables	(164,172)	264,600	(73,451)	240,547
-Decrease / (Increase) in Inventory	25,451	(18,436)	-	-
-Decrease in Tax Liabilities	13,327	-	-	-
-(Increase) in FITB	(367)	(14,897)	(24,250)	-
-(Increase) in Prepayments	-	(11,627)	-	(11,627)
-Increase in Provisions	10,533	65,150	-	27,915
Cash flow from operations	<u>(179,829)</u>	<u>(87,420)</u>	<u>(340,757)</u>	<u>(204,623)</u>

- (c)** The economic entity acquired plant and equipment with an aggregate fair value of \$24,650 (2004: \$24,678) by way of hire purchase.

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

NOTE 19: CONTROLLED ENTITIES

Subsidiary: Auspep Holdings Limited

Country of incorporation: Australia

Percentage owned: 76% (2004 - 90%)

Controlled entities of Auspep Holdings:

Auspep Pty Ltd	Australia	100%
- Auspep LLC	USA	100%
Auspep Clinical Peptides	Australia	100%

Subsidiary: Australian Regional Airports Pty Ltd

Country of incorporation: Australia

Percentage owned: 69% (2004 – 69%)

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

**NOTE 20: SEGMENT REPORTING
BUSINESS SEGMENTS**

	PDF Activities		Airport Management		Peptide Manufacturing		Eliminations		Total	
	2005 \$	2004 \$	2005 \$	2004 \$	2005 \$	2004 \$	2005 \$	2004 \$	2005 \$	2004 \$
Revenue										
External Sales	-	-	102,526	-	2,883,843		(89,326)	-	2,897,043	2,781,694
Inter-segment Sales	-	-	-	-	-	2,781,694	-	-	-	-
Total Revenue		-	102,526	-	2,883,843		(89,326)	-	2,897,043	-
Other Income	994,806	-	-	-	102,439	3,925			1,097,245	3,925
Share of net profit of Associates	-	-	143,608	89,326	-	-	-	-	143,608	89,326
Total segment revenue	994,806	-	246,134	89,326	2,986,282	2,785,619	(89,326)	-	4,137,096	2,874,945
Result										
Segment Results	(204,610)	(464,984)	88,240	73,284	(180,689)	(206,549)	44,126	(56,534)	(252,933)	(654,883)
Depreciation	3,999	3,526	-	-	110,875	75,777	-	-	114,014	79,303
Assets										
Segment Assets	5,639,333	5,916,645	665,579	1,204,088	4,539,771	4,714,614	573,274	(4,530,240)	10,271,412	7,305,107
Investment in equity accounted associate – included in segment assets	-	-	4,013,792	1,185,349	-	-		-	4,013,792	1,185,349
Acquisition of non current assets	1,454	6,984	-	-	463,510	267,309	-	-	464,965	274,293
Liabilities										
Segment liabilities	311,767	409,467	103,103	103,184	450,380	444,534	(77,000)	(77,000)	788,330	880,185

GEOGRAPHICAL SEGMENTS

The economic entity operates predominantly in Australia. Peptide manufacturing sales are made in a number of overseas markets however no individual market is currently a significant portion of the business.

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

NOTE 21: COMPANY DETAILS

The registered office and principal place of business of the company is:

State Development Fund Limited
Suite 122D, 530 Little Collins Street
Melbourne Vic 3000

NOTE 22: COMMITMENTS

	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
Hire Purchase Commitments				
Not later than one year	20,785	21,802	-	-
Not later than five years	28,159	41,261	-	-
	48,944	63,063		-
Unpaid interest				
Not later than one year	(2,875)	(3,797)	-	-
Not later than five years	(2,646)	(4,281)	-	-
	(5,521)	(8,078)		-
Current Liability	17,910	18,005	-	-
Non-current liability	25,513	36,980	-	-
	43,423	54,985	-	-
Operating Lease				
Premises at Tullamarine				
- Not later than one year	50,242	50,242	-	-
- Not later than five years	274,764	274,764	-	-
- Later than five years	139,334	189,576	-	-
	464,340	514,582	-	-

	Economic Entity	
	2005	2004
NOTE 23: EARNINGS PER SHARE		
Net Loss	(252,933)	(654,883)
Net Profit/(loss) attributable to outside equity interest	15,894	(2,063)
Earnings used to calculate basis and diluted earnings per share	(237,039)	(656,946)
Weighted average number of ordinary shares used in calculating basis and diluted earning per share	32,615,096	30,051,623

Potential ordinary shares that are not dilutive and not used in the calculation of diluted EPS:
Share options; -1,000,000 Shares. The share options outstanding were not dilutive, as their conversion would result in a reduction in the loss per share.

**STATE DEVELOPMENT FUND LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

NOTE 24: AUDITOR'S REMUNERATION	Economic Entity		Parent Entity	
	2005 \$	2004 \$	2005 \$	2004 \$
Audit and Review Fees	45,770	24,000	25,070	15,500
Other Services	28,186	22,400	11,050	12,400
	<u>73,956</u>	<u>46,400</u>	<u>36,120</u>	<u>27,900</u>

NOTE 25: RELATED PARTY DISCLOSURES

Directors

The Directors of the Company during the year were:

Sir Laurence Muir	Michael McDonald
Legh Davis	John Nissen
Peter King	Dr Andrew Ludekens (Appointed 8/12/2004)

Director-related entity transactions

Loans

There are no loans made by the disclosing entity or any of its subsidiaries to any specified director or specified executive, including their personally related entities.

**STATE DEVELOPMENT FUND LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

NOTE 26: INTEREST RATE RISK EXPOSURE

Financial Instruments

(a) Interest Risk

The economic entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, at balance date, are as follows:

2005

	Non- Interest Bearing	1 Year or less	Over 1 to 5 years	Floating interest rate	Total	Effective interest/rates weighted average interest rate
Financial assets:						
Cash	-	-	-	914,475	914,475	2.6%
Accounts receivable	387,752	-	-	-	387,752	
	<u>387,752</u>	<u>-</u>	<u>-</u>	<u>914,475</u>	<u>1,302,227</u>	-
Financial liabilities:						
Accounts payable	508,523	-	-	-	508,523	-
Borrowings:	-	77,931	25,513	-	103,444	8.1%
	<u>508,523</u>	<u>77,931</u>	<u>25,513</u>	<u>-</u>	<u>611,967</u>	

2004

	Non- Interest Bearing	1 Year or less	Over 1 to 5 years	Floating interest rate	Total	Effective interest/rates weighted average interest rate
Financial assets:						
Cash	-	-	-	595,860	595,860	1.7%
Accounts receivable	589,851	-	-	-	589,857	
	<u>589,851</u>	<u>-</u>	<u>-</u>	<u>595,860</u>	<u>1,185,717</u>	-
Financial liabilities:						
Accounts payable	672,595	-	-	-	672,695	-
Borrowings:	-	18,005	36,980	-	54,985	8.1%
	<u>672,695</u>	<u>18,005</u>	<u>36,980</u>	<u>-</u>	<u>727,680</u>	

(b) Net Fair Values

The aggregate net fair values of financial assets and liabilities are the same as the carrying amounts.

(c) Credit Risk

The maximum credit risk exposure is represented by the carrying amounts of assets. There is no significant credit risk exposure.

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

NOTE 27: AUSTRALIAN - INTERNATIONAL FINANCIAL REPORTING STANDARDS (A-IFRS)

At the date of this report, SDF has partially completed its project plan for the transition A-IFRS including the assessment of accounting policy alternatives on transition to A-IFRS, the finalisation of the A-IFRS accounting policies that will be adopted 1 July 2005, and the determination of the likely impact on the results and the financial position of the company. The final steps will be to finalise the impacts of the A-IFRS standard relating to income taxation and to conduct a post implementation review.

the likely impacts of A-IFRS on the results and financial position of the company

The following pro-forma statements of financial performance and financial position outline the likely impacts on the current year result and financial position of the company had the financial statements been prepared using A-IFRS, based on the directors' accounting policy decisions current at the date of this financial report. Readers of the financial report should note that;

- Further developments in A-IFRS (for example, the release of further pronouncements by the Australian Accounting Standards Board and Urgent Issues Group), if any, may result in changes to the accounting policy decisions made by the directors and, consequently, the likely impacts outlined in the following pro-forma financial statements; and
- The impact of A-IFRS on the tax balances in the following proforma statements has not yet been enumerated

The directors may, at any time until the completion of the entity's first A-IFRS compliant financial report, elect to revisit, and where considered necessary, revise the accounting policies applied in preparing the proforma financial statements.

**Pro Forma Statement of Financial Performance for the
Year ended 30 June 2005**

		AGAAP	A-IFRS	A-IFRS
	Note	Actual	Impact	Pro-Forma
		\$	\$	\$
Revenue from ordinary activities	(c)	3,994,288	(696,750)	3,297,538
Cost of sales		(1,738,428)	-	(1,738,428)
Gross Profit		2,255,860	-	1,559,110
Administration expenses	(a)	(1,244,038)	213,443	(1,030,595)
Borrowing Costs		(9,861)	-	(9,861)
Marketing expenses		(569,460)	-	(569,460)
Occupancy expenses		(119,332)	-	(119,332)
Carrying Value of Investments Sold	(c)	(696,750)	696,750	-
Share of Net Profit of associate accounted for using the equity method		143,608	-	143,608
Loss from ordinary activities before income tax expense		(239,973)	213,443	(26,530)
Income tax expense relating to ordinary activities	(b)	(12,960)	-	(12,960)
Loss from ordinary activities after related income tax benefit		(252,933)	213,443	(39,490)
Net (profit)/loss attributable to outside equity interest		15,894	-	15,894
Net Loss attributable to the members of State Development Fund Limited		(237,039)	213,443	(23,596)
Increase in asset revaluation reserve arising from revaluation of non current assets of associate		1,856,694	-	1,856,694
Total changes in equity other than those resulting from transactions with owners as owners		1,619,655	-	1,833,098

**STATE DEVELOPMENT FUND LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
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Pro Forma Statement of Financial Position for the Year ended 30 June 2005		AGAAP	A-IFRS Impact	A-IFRS
	Note	Actual \$		Pro-Forma \$
Current Assets				
Cash Assets		914,475	-	914,475
Receivables		387,752	-	387,752
Inventories		153,663	-	153,663
Total Current Assets		1,455,890	-	1,455,890
Non Current Assets				
Investments Accounted for using the equity method		4,013,792	-	4,013,792
Plant and Equipment		868,010	-	868,010
Intangible Assets	(a)	3,882,103	213,443	4,095,546
Deferred Tax Assets		51,617	-	51,617
Total Non Current Assets		8,815,522	213,443	9,028,965
Total Assets		10,271,412	213,443	10,484,855
Current Liabilities				
Payables		508,523	-	508,523
Interest bearing liabilities		77,931	-	77,931
Provisions		127,740	-	127,740
Tax Liabilities		24,445	-	24,445
Total Current Liabilities		738,639	-	738,639
Non Current Liabilities				
Payables		-	-	-
Interest bearing liabilities		25,513	-	25,513
Provisions		24,178	-	24,178
Total Non Current Liabilities		49,691	-	49,691
Total Liabilities		788,330	-	788,330
Net Assets		9,483,082	213,443	9,696,525
Equity				
Contributed Equity		6,600,557	-	6,600,557
Asset Revaluation Reserve		2,227,516	-	2,227,516
Accumulated Losses		(1,520,577)	213,443	(1,307,134)
Total Parent Entity Interest		7,307,496	213,443	7,520,939
Total Outside Equity Interest		2,175,586		2,175,586
Total Equity		9,483,082	213,443	9,696,525

**STATE DEVELOPMENT FUND LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

The following explanatory notes relate to the pro-forma financial statements above and describe, for significant items, the difference between the accounting policies under A-IFRS and the current treatment of those items under AGAAP:

a) Intangibles and Amortisation

Under A-IFRS, goodwill is not subject to amortisation, but must be tested annually for impairment and whenever there is an indication that goodwill may be impaired. As a result, amortisation expense will decrease by \$213,443 for the financial year ended 30 June 2005, and the intangible asset goodwill will increase \$213,443 by the same amount as at 30 June 2005.

b) Income Tax

Under the A-IFRS, there may be adjustments to the recognized amounts of deferred taxes and income tax expense. The impact of these changes has not yet been determined.

c) Revenue Recognition

Currently the company discloses the gross proceeds from the disposal of investments as revenue through the Statement of Financial Performance, with the carrying value at the time of sale recorded as an expense. Under A-IFRS the net gain will be recorded as revenue.

d) Employee Benefits

There are no differences between current A-GAAP treatment and the A-IFRS treatment.

e) Retained Earnings

With limited exceptions, adjustments required on the first adoption of A-IFRS are recognized directly in retained earnings at the date of transition to A-IFRS.

f) Share based payments

Share based payments were examined as part of the project for the implementation of A-IFRS. Share-based payments, not vested before 1/1/05, are required to be expensed under A-IFRS. As a result of the recognition criteria and "true-up" process required under A-IFRS, the directors do not anticipate there will need to be a material financial adjustment required to the 30 June 2005 financial statements.

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

DIRECTORS' DECLARATION

In the opinion of the directors of State Development Fund Limited:

- (a) the accompanying financial statements and notes are in accordance with the Corporations Act 2001 comply with the Accounting Standards and give a true and fair view of the company's and the consolidated entity's financial position as at 30 June 2005 and of the performance for the financial year ended on that date.
- (b) at the date of this declaration there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
- (c) This declaration was made after receiving the declaration required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30th June 2005.

This declaration is made in accordance with a resolution of the directors.

A handwritten signature in black ink, reading "Legh Davis". The signature is written in a cursive, flowing style.

Director and Chairman

Legh Davis

Dated this 30th day of September 2005

**INDEPENDENT AUDIT REPORT
TO MEMBERS OF STATE DEVELOPMENT FUND LIMITED**

Scope

The Financial Report and Directors' Responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both State Development Fund Limited (the company) and its controlled entities (the consolidated entity), for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit Approach

We have conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We have performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as

represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- (a) examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- (b) assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Audit Opinion

In our opinion, the financial report of State Development Fund Limited is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 and of their performance for the year ended on that date, and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.



PKF
Chartered Accountants

30 September 2005
Melbourne
A Victorian Partnership



R A Dean
Partner

Shareholders' Information as at 31 August 2005

Total issued Capital	32,634,000
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Distribution of Shareholdings	Holders	Shares
1 – 1,000	0	0
1,001 – 5,000	9	31,500
5,001 – 10,000	42	351,000
10,001 – 100,000	40	1,272,700
100,001 and over	14	30,978,800
Total number of shareholders	105	32,634,000

Voting Rights:	One vote for each ordinary share held
Shareholders holding less than a marketable parcel	0
Number of restricted securities on issue	0
Number of unquoted securities (options)	1,000,000
Number of holders of unquoted securities (options)	1

Top 10 Shareholders	Number	% Issued Capital
Nefco Nominees Pty Ltd	6,500,000	19.91
Prime Endeavour Pty Ltd	6,498,000	19.91
ANZ Nominees Pty Ltd	6,000,000	18.38
Rhys Securities Pty Ltd	3,502,800	10.73
Dr Andrew Ludekens	2,000,000	6.13
Mr Dhillaran Sivaratnam	2,000,000	6.13
Mr Michael McDonald	1,818,800	5.57
Mr Peter King	1,498,600	4.59
Moonlight Investments Pty Ltd	500,000	1.53
Reed Consulting Pty Ltd	400,000	1.22
Top 10 Total	30,718,000	94.13
Remainder	1,916,000	5.87
Total	32,634,000	100