



Chairman's Address to the State Development Fund Annual General Meeting

21 November 2005

I welcome you to the annual general meeting of State Development Fund Limited for the year ending 30 June 2005.

I would firstly like to pay tribute to Sir Laurence Muir, who retired as chairman of the company at the financial year. He had been chairman of the company since it was first established in 2002.

State Development Fund is a pooled development fund pursuant to the Pooled Development Funds Act 1992. The aim of this Commonwealth Legislation is to provide patient equity capital to small or medium sized Australian companies.

When State Development Fund (SDF) floated it held a 38% interest in Australian Regional Airports Pty Ltd (ARA). ARA held a 49% interest in Burnie Airport Corporation (BAC) with the Burnie City Council holding the other 51%. BAC had acquired the Burnie Wynyard Airport, which included 223 hectares of land, for \$2.5 million in February 2002.

SDF also had an agreement to acquire a 30% interest in Auspep, a manufacturer and distributor of synthetic peptides to pharmaceutical companies and research and development institutions in Australia and overseas. Auspep's stated aim was to establish a GMP accredited manufacturing facility.

The float of SDF was hindered by a lacklustre share-market during 2002 and early 2003. The ASX all ordinaries index fell by nearly 23% between February 2002 and March 2003. As a result SDF did not attract the level of subscriptions hoped for nor sufficient shareholders to list on the ASX. Instead SDF listed on the BSX on 4 June 2003.

In the 2½ years since listing SDF has increased its interest in ARA to 69%, which provides an effective 33.81% stake in BAC.

SDF also increased its interest in Auspep to 90%, which has subsequently reduced to 76% by the sale of shares to a number of investors.

Both investments have performed well during 2004/2005. The Burnie Wynyard Airport is proving a popular gateway for both business people and tourists to north-west Tasmania. There was a 2.7% increase in passenger movements to 95,168 and a 16.3% increase in revenue to nearly \$1.3 million for 2004/05.

It is also encouraging to note the airport activities of BAC were valued at \$5.6-\$5.8 million in October 2004. This excluded the industrial and residential land owned by BAC. In June 2005 a Tasmanian Government department valued the aerodrome property at \$7 million, a significant appreciation on the \$2.5 million purchase price.

Of the 223 hectares of land at the airport nearly 65 hectares is designated for industrial development and 7.2 hectares for residential development. Vestas Wind Systems has constructed a \$15 million assembly plant on 5 hectares and there is potential for ancillary and other businesses.

The opening quarter of 2005/06 has seen a 6% fall in passenger movements reflecting slowing domestic and international tourism in addition to heavy discounting into Launceston airport from the mainland. This adjustment may also reflect the previous strong growth at Burnie Wynyard Airport - 15% increase in passengers in the first quarter of 2003/04 followed by a 10% increase in the first quarter 2004/05. However, with lower costs, BAC profit for the first quarter of 2004/05 is steady.

A major upgrade of the Burnie Wynyard Airport terminal is planned for this financial year at a cost of over \$600,000. This will be funded from internal cash flow and land sales.

Auspep has completed its GMP facility in Tullamarine at a cost of over \$700,000. In addition \$300,000 of equipment has been purchased. The Therapeutic Goods Administration (TGA) is due to audit the GMP facility hopefully before Christmas. This will be the first commercial GMP facility in the southern hemisphere specialising in the production of peptides. It is expected that this new facility will lead to increased domestic and export sales.

The establishment of the GMP facility is an exciting new phase in Auspep's 18-year history. SDF is confident that this investment will bear fruit in the coming years under the leadership of Chris Chandler and his staff.

In due course Auspep intends to relocate its current operations at the West Melbourne site to Tullamarine. For the first 3 months of 2005/06, Auspep revenue was in line with budget.

SDF has previously advised shareholders of its intention to list Auspep on the ASX. Strong advice has been received to defer any listing until the GMP facility is established and the necessary approvals obtained.

Auspep will be holding its annual general meeting next week and will be electing new directors to assist in progressing the company towards listing.

Finally, I would like to commend my fellow directors of SDF. In the 2½ years since listing the directors of SDF have accepted no fees. This decision has been taken to help preserve our cash resources. Dr Robert Payne, as CEO of SDF, is the only paid employee of the company.

The SDF Audit Committee meets regularly and is currently reviewing administrative expenses.

The year 2005/06 promises to be a year when significant progress is made with our two investments. The upgrade of the Burnie Wynyard Airport terminal and continued development and sale of land for industrial use and housing will add value to this investment. The commissioning of the GMP facility at Tullamarine will be a watershed for the future growth and direction of Auspep.



Legh Davis
Chairman and Director