

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

**FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2006**



Chairman's Letter

Thursday, 28 September 2006

I welcome the opportunity to present to shareholders of State Development Fund Limited ("**SDF**") the annual report for the financial year ended 30 June 2006.

SDF is a Pooled Development Fund, aiming to maintain a portfolio of 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 Ltd ("**AHL**"), and Australian Regional Airports Pty Ltd ("**ARA**").

Investee Companies

SDF owns 76% of AHL, an established Australian manufacturer and distributor of synthetic peptides. During the course of the year AHL's wholly owned subsidiary, Auspep Pty Ltd, gained Good Manufacturing Practice ("**GMP**"), accreditation from the Australian Therapeutic Goods Administration ("**TGA**"), which gives it government approval to manufacture peptides suitable for human clinical studies for which there is a growing and profitable market in Australia and overseas. Auspep is the only GMP facility of its type in the southern hemisphere and one of only eight such facilities in the world. SDF will seek to optimise the value of AHL in 2006/07.

SDF has seen its investment in ARA, a regional airport investment and management company, increase in value. SDF owns 69% of the shares in ARA, which in turn owns 49% of the shares in Burnie Airport Corporation ("**BAC**"). BAC owns 100% of the Burnie-Wynyard Airport in Northwest Tasmania. Qantas has announced its withdrawal from Burnie and several other regional airports in Australia. However Regional Express ("**REX**"), has increased the number of flights to Burnie and is also providing a greater range of timetable options. An upgrade of the airport terminal will commence shortly. BAC has also been selling off industrial land for development and seeking further rezoning to accommodate the growing demand for residential development. Recent external valuations show the net value of BAC assets to be \$8.2 million. SDF's 33.81% interest in this net value is \$2.8 million.

Corporate Structure

Mr Peter J. Kral has been appointed as acting CEO. The board has significantly reduced the administrative cost of SDF and is currently examining the restructuring of SDF. It expects to announce in October details of this restructuring and plans for a capital raising.

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

Yours sincerely

A handwritten signature in blue ink that reads 'Legh Davis'.

Legh Davis
Chairman

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

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**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

DIRECTORS' REPORT

Your directors present their report on the company and its controlled entities for the financial year ended 30 June 2006.

Directors

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

Legh Hewitson Davis (appointed 30/07/02), Chairman since 30/6/2005

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)

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.

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

- The granting to Auspep of TGA approval for the production of human-grade peptides, and the addition of three independent directors to the Auspep board to ensure Auspep fully exploits this opportunity as it unfolds.
- A new partnership between Burnie Airport Corporation and Regional Express (REX) will see Rex provide additional aircraft and crew resources for the Burnie-Melbourne route to take the frequency of services up to five or potentially more services per day.
- Mr Peter J.Kral has been appointed as acting CEO. The board has significantly reduced the administrative costs of running SDF.

Results from Operations

The consolidated loss of the economic entity for the financial year after providing for income tax and eliminating minority equity interests amounted to \$372,457 (2005: Loss \$380,476).

Review of Operations

A review of the operations of the 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.

Auspep Holdings Limited (AHL)

Auspep Pty Ltd, a wholly owned subsidiary of Auspep Holdings Ltd, caters to the rapidly emerging market for synthetic biologically active peptides used in research and commercial drug development. Today, this Australian owned company is an active participant in the custom peptide synthesis industry in Australia and is exploring larger opportunities for value added GMP grade product here and overseas.

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.

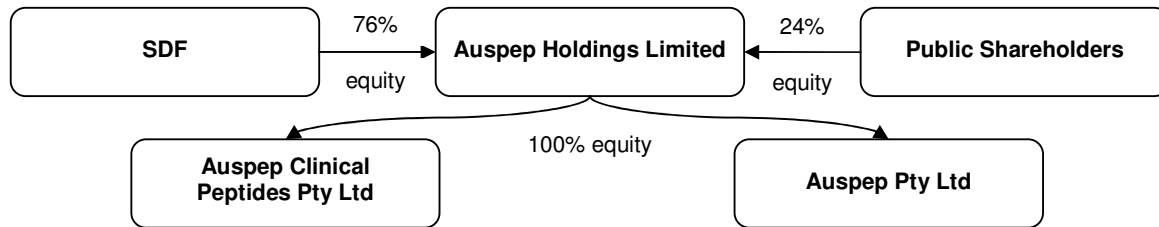
STATE DEVELOPMENT FUND LIMITED AND CONTROLLED ENTITIES

DIRECTORS' REPORT (Cont'd)

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.

SDF owns 76% of the share capital in Auspep Holdings. Its corporate structure is outlined in Figure 2. Mr John Nissen is a director and shareholder of both Auspep Holdings and SDF and holds 10% of Auspep Holdings' shares through a related entity.

Figure 1: Auspep Shareholding Structure



Mr Richard Ryan, Mr Legh Davis and Professor Ian Smith were appointed to the AHL board on 30th November 2005.

Established in 1986, 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 Universities, the Garvin Institute, St Vincent's Hospital, Baker and Queensland Institutes of Medical Research, the Victor Chang Institute for Cardiac Research, Howard Florey Institute, Walter & Eliza Hall and Ludwig Institutes, Peptech Ltd, Biotech Australia Ltd, CSL Ltd and Amrad Ltd.

In April 2006 Auspep was granted approval from the Therapeutic Goods Administration to produce human-grade peptides in a new GMP (Good Manufacturing Practice) facility at Auspep's Tullamarine headquarters. The board of Auspep intends to fully exploit the significant opportunity opened up by granting of this GMP accreditation, as the market for GMP quality peptides is growing and offers higher revenue opportunities when compared to non-GMP catalogue and custom peptides. A significant global pharmaceutical company has already placed a large order with Auspep, where historically Auspep would not have tendered for the business, and the peptides would have been imported by the client. In 2007 the company will seek CE Mark approval in order to gain access to the lucrative European market.

The AHL board is currently undertaking an independent review of the company's strategic direction and market focus, the recommendations of which will be considered and implemented over the next 2 years.

Australian Regional Airports Pty Ltd (ARA)

Prior to 1987, the Commonwealth Government owned regional airports. Pursuant to a divestment plan known as the Local Ownership Plan, the Commonwealth has been divesting 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.

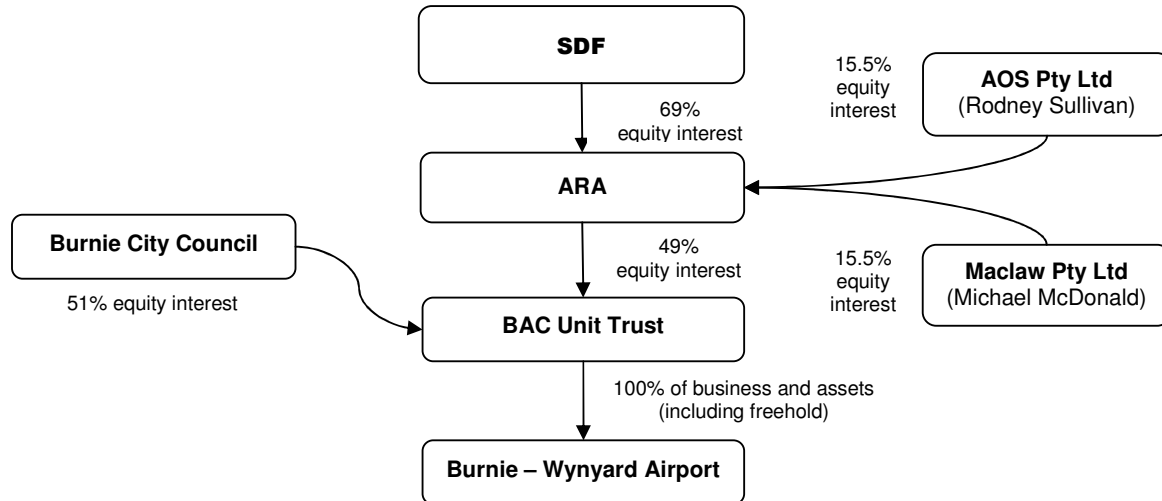
The main drivers of regional airport revenues are increasing passenger numbers and aircraft movements. The numbers of passengers passing through these gateway airports determines retail revenues. On the other hand, revenue from regulated aeronautical services is derived from aircraft movements, which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

STATE DEVELOPMENT FUND LIMITED AND CONTROLLED ENTITIES

DIRECTORS' REPORT (Cont'd)

Figure 2 outlines SDF's ownership of 69% of ARA, which in turn owns 49% of the Burnie Airport Corporation (BAC) Unit Trust, the 100% owner of the business and assets of the Burnie-Wynyard Airport. This means SDF has an effective 33.81% interest in BAC. Through their respective related entities, Mr Michael McDonald and Mr Rodney Sullivan, are substantial shareholders in ARA. Mr McDonald is also a director and shareholder of SDF.

Figure 2: ARA Shareholding Structure



BAC acquired the business and assets of the Burnie-Wynyard Airport on 1 February 2002 for \$2.5 million. An official valuation undertaken by the Rawlinsons in October 2004, on behalf of BAC, valued the airport activities of BAC at between \$5.6 - \$5.8 million. This valuation did not include a premium for the value of the industrial and residential land owned by BAC. A second valuation of the Burnie Airport carried out by the Tasmanian Government in June 2005 valued all the property owned by BAC at \$3.4 Million. After taking into account debt, the net value of BAC assets is \$8.2 million. SDF's 33.81% interest in this net value is \$2.77 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. The following are major developments:

Financial Position

The net assets of the consolidated entity for 2006 is \$8,355,240 (2005: \$8,724,555).

In 2005 there was an increase in land valuation of the Burnie Wynyard Airport carried out by the Tasmanian Government. This resulted in an appreciation of the group's land and buildings with a net movement in the group's revaluation reserve of \$1,856,694 in that year.

The directors believe the investment in Auspep infrastructure and plant will be complemented by the rate at which the global peptide market is growing.

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

DIRECTORS' REPORT (Cont'd)

Significant Changes in State of Affairs

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

- The granting to Auspep of TGA approval for the production of human-grade peptides, and the addition of three independent directors to the Auspep board to ensure Auspep fully exploits this opportunity as it unfolds.
- A new partnership between Burnie Airport Corporation and Regional Express will see Rex provide additional aircraft and crew resources for the Burnie-Melbourne route to take the frequency of services up to five or potentially more services per day.
- Mr Peter J. Kral has been appointed acting CEO. The board has significantly reduced the administrative costs of running SDF.

Changes in Controlled Entities and Divisions:

There have been no changes in Controlled Entities and Divisions.

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

Following the gaining of the GMP accreditation, the Board of Auspep is examining ways to maximise the opportunities in both the domestic and overseas markets.

During 2006/7, BAC will be upgrading terminal facilities and seeking to further rezone land for industrial purposes.

The Board of SDF is evaluating various proposals for the restructuring of the company and maximising shareholder value.

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

Legh Hewitson Davis, LLB, B.EC, FCPA, FSIA – Chairman

Mr Davis is currently State Chairman of ABN AMRO Morgans in South Australia and a board member of Artbank.

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 a former State President of the Securities Institute of Australia.

Peter King, LL.B

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.

Mr King is an Executive Chairman of Rhys Capital Pty Ltd and a director and major shareholder of Rhys Securities Pty Ltd.

John Andreas Nissen

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 raising 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 the current chairman of three timeshare resorts in Australia with a combined ownership base of approximately 8,000 members.

Mr Nissen was a founding shareholder and director of Golf Australia Holdings Limited, is the Deputy Chair of Rhys Capital Pty Ltd, a director of ARA and a director and minority shareholder of Aussep Holdings Ltd.

Michael David McDonald, BA, LL.B

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.

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DIRECTORS' REPORT (Cont'd)

Dr Andrew Ludekens MBBS ASIA

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, with interests in property development, property services, and Australian agribusiness.

Directorships of Other Listed Companies

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

Name:	Company:
John Nissen	Poltech International (2003-2005) Cendant Australasia Limited (2004)
Peter King	Poltech International (2003-2005)
Michael McDonald	Poltech International (2003)

Company Secretary

Peter J. Kral ACA, ACIS
Mr Kral was appointed company secretary and interim Chief Executive Officer on 2 May 2006.

Robert Payne ceased to be company secretary on 28 April 2006.

Remuneration Report

This report details the nature and amount of remuneration for each director of SDF and for the executives receiving the highest remuneration.

Remuneration Policy

The remuneration policy of SDF has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the economic entity's financial results. The board of SDF believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the company, as well as create goal congruence between directors, executives and shareholders.

The board's policy for determining the nature and amount of remuneration for board members and senior executives of the economic entity is as follows:

The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the remuneration committee and approved by the board after seeking professional advice from independent external consultants. All executives receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits, options and performance incentives. The remuneration committee reviews executive packages annually by reference to the economic entity's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The performance of executives is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of SDF profits and shareholders' value. The board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

The executives receive a Superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits. Any remuneration paid to directors and executives is valued at the cost to the company and expensed.

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

Details of Remuneration for Year Ended 30 June 2006

The remuneration for each director and the executive officers of the consolidated entity was as follows:

	Short Term Employee Benefits: Cash, Salary, Fees and Commissions \$	Post Employment Benefits: Superannuation Contribution \$	Other Long Term Employee Benefits \$	Termination Benefits \$	Share Based Payment Options \$	Total \$
Directors						
Legh Davis Non-Executive Chairman	0	0	0	0	0	0
John Nissen Non-Executive Director	60,000(1)	0	0	0	0	60,000
Peter King Non-Executive Director	0	0	0	0	0	0
Michael McDonald Non-Executive Director	0	0	0	0	0	0
Dr Andrew Ludekens Non-Executive Director	0	0	0	0	0	0
Executives						
Dr Robert Payne CEO (Until 28/4/06) SDF	137,997	13,872	0	0	0	151,869
Dr Chris Chandler Managing Director Auspep Holdings	150,000	14,850	0	0	0	164,850
Robert Bothos General Manager Auspep Holdings	76,552	8,065	0	0	0	84,617
Peter J. Kral Interim CEO (From 2/5/06) SDF	12,800	0	0	0	0	12,800
	437,349	36,787	0	0	0	474,136

(1) paid for consulting and management services by Auspep Holdings Pty Ltd.

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

DIRECTORS' REPORT (Cont'd)

Details of Remuneration for Year Ended 30 June 2005

The remuneration for each director and the executive officers of the consolidated entity was as follows:

	Short Term Employee Benefits: Cash, Salary, Fees and Commissions \$	Post Employment Benefits: Superannuation Contribution \$	Other Long Term Employee Benefits \$	Termination Benefits \$	Share Based Payment Options \$	Total \$
Directors						
Legh Davis	0	0	0	0	0	0
John Nissen	60,000(1)	0	0	0	0	60,000
Peter King	0	0	0	0	0	0
Michael McDonald	0	0	0	0	0	0
Dr Andrew Ludekens	0	0	0	0	0	0
Executives						
Dr Robert Payne - SDF	150,959	13,586	0	0	18,889	183,434
Dr Chris Chandler - Auspep Holdings	119,000	11,926	0	0	0	130,926
Robert Bothos -SDF	36,718	3,300	0	0	0	40,018
	366,677	28,812	0	0	18,889	414,378

Performance Income as a Proportion of Total Remuneration

Executive directors and executives are paid performance based bonuses based on set monetary figures, rather than proportions of their salary. This has led to the proportions of remuneration related to performance varying between individuals. The remuneration committee has set these bonuses to encourage achievement of specific goals that have been given a high level of importance in relation to the future growth and profitability of the economic entity. The remuneration committee will review the performance bonuses to gauge their effectiveness against achievement of the set goals, and adjust future years' incentives as they see fit, to ensure use of the most cost effective and efficient methods. During the 30 June 2006 and 30 June 2005 years no bonuses have been paid.

Employment Contracts of Directors and Senior Executives

The acting Chief Executive Officer is employed under contract, which commenced on 2 May 2006.

Shareholdings of Directors and Executives

	Opening balance 1 July 2005	Granted as remuneration	On exercise of Options	Net Change other	Closing Balance 30 June 2006
Directors					
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	-	-	-	-	-
P Kral	-	-	-	-	-

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

- (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.

Option Holdings of Specified Directors and Specified Executives

Options are issued to the Chief Executive Officer of SDF as part of his remuneration. The options are not issued based on performance criteria, but are issued to increase goal congruence between the Chief Executive Officer, directors and shareholders.

	Opening Balance 1 July 2005	Granted as Remuneration	Options Exercised	Net Change Other	Options Expired (1)	Closing Balance 30 June 2006	Vested At Period End	Not Able to be Exercised	Exercisable
Directors									
L Davis	-	-	-	-	-	-	-	-	-
J Nissen	-	-	-	-	-	-	-	-	-
P King	-	-	-	-	-	-	-	-	-
M McDonald	-	-	-	-	-	-	-	-	-
A Ludekens	-	-	-	-	-	-	-	-	-
Executives									
R Payne	1,000,000	-	-	-	1,000,000	-	-	-	-
C Chandler	-	-	-	-	-	-	-	-	-
P Kral	-	-	-	-	-	-	-	-	-

(1) Options issued to Dr Payne expired upon his resignation from the company.

Dividends Paid/Recommended

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

Meetings of Directors

During the financial year, 12 meetings of directors (including committees of directors) were held. Attendances by each director during the year were:

	Directors' Meetings		Committee Meetings			
			Audit Committee (1)		Remuneration and Nomination Committee (1)	
	Number Eligible to Attend	Number Attended	Number Eligible to Attend	Number Attended	Number Eligible to Attend	Number Attended
Directors						
Legh Davis	12	12	-	-	-	-
John Nissen	12	11	-	-	-	-
Peter King	12	12	-	-	-	-
Michael McDonald	12	8	-	-	-	-
Dr Andrew Ludekens	12	11	-	-	-	-

(1) during the year all matters usually dealt with by the Committees were dealt with at full Director's Meetings.

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

DIRECTORS' REPORT (Cont'd)

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 wilful breach of duty in relation to the company.

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. The following employee options expired during the financial year.

Executive:	Number of Options	Number of Ordinary Shares Under Option	Issuing Entity
R Payne	1,000,000	1,000,000	State Development Fund Ltd

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 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 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".

Details of amounts paid and payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 24 to the financial statements.

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2006 has been received and can be found on page 12.

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

DIRECTORS' REPORT (Cont'd)

Corporate Governance and Best Practice

The Board has remained up to date on the proposed changes to the ASX Corporate Governance guidelines.

Due to SDF's commitment to fulfilling its corporate governance guidelines, the company obtained an Australian Financial Services Licence. In line with the Australian Securities and Investment Commissions implementation of the Financial Services Reform ("FSR") 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 is confident 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. 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 two independent directors and the company secretary.

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, the company secretary and an external compliance consultant.

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



Legh Davis
Chairman and Director

Dated this 28th day of September 2006



Chartered Accountants
& Business Advisers

28 September 2006

The Directors
State Development Fund Limited
Suite 712
530 Little Collins Street
MELBOURNE VIC 3000

Dear Directors

INDEPENDENCE DECLARATION

As lead audit partner for the audit of the financial report of State Development Fund Limited for the financial year ended 30 June 2006 and in accordance with section 307C of the Corporations Act 2001, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (a) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (b) any applicable code of professional conduct in relation to the audit.

Yours faithfully
PKF

A handwritten signature in blue ink, appearing to read 'R A Dean', is written over a faint, larger blue signature.

R A Dean
Partner

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006**

	Note	Economic Entity		Parent Entity	
		2006 \$	2005 \$	2006 \$	2005 \$
Revenue	2	3,025,771	2,975,323	79,179	298,056
Expenses	3	(3,143,321)	(3,338,238)	(362,832)	(497,236)
Depreciation and amortisation expenses	3	(211,941)	(114,874)	(4,329)	(3,999)
Finance costs	3	(57,907)	(9,861)	(41,246)	(1,430)
Share of Net Profit of associate accounted for using the equity method	9	-	143,608	-	-
Loss before income tax expense		(387,398)	(344,042)	(329,228)	(204,609)
Income tax benefit/(expense)	4	18,083	(12,960)	-	-
Loss after income tax benefit		(369,315)	(357,002)	(329,228)	(204,609)
Net (profit)/loss attributable to outside equity interest		(3,142)	(23,474)	-	-
Net result for the period		(372,457)	(380,476)	(329,228)	(204,609)
Basic and diluted earning per share - cents	23	(.011)	(.012)	-	-

The accompanying notes form part of these financial statements.

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**BALANCE SHEET
AS AT 30 JUNE 2006**

	Note	Economic Entity		Parent Entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
CURRENT ASSETS					
Cash and cash equivalents	5	253,310	914,475	95,951	712,312
Trade and other receivables	6	224,832	387,752	175,474	119,001
Inventories	7	220,073	153,663	-	-
TOTAL CURRENT ASSETS		698,215	1,455,890	271,425	831,313
NON-CURRENT ASSETS					
Other financial assets	8	-	-	4,803,250	4,803,250
Investments accounted for using the equity method	9	4,013,792	4,013,792	-	-
Property, plant and equipment	10	1,084,350	868,010	1,334	4,770
Intangibles	11	4,092,063	4,092,063	-	-
Deferred tax assets	12	61,569	51,617	-	-
TOTAL NON-CURRENT ASSETS		9,251,774	9,025,482	4,804,584	4,808,020
TOTAL ASSETS		9,949,989	10,481,372	5,076,009	5,639,333
CURRENT LIABILITIES					
Trade and other payables	13	362,313	508,525	77,669	308,100
Financial liabilities	14	21,334	77,931	-	-
Provisions	15	92,676	127,740	-	3,665
Tax Liabilities	16	16,314	24,445	-	-
TOTAL CURRENT LIABILITIES		492,637	738,641	77,669	311,765
NON-CURRENT LIABILITIES					
Deferred tax liabilities	16	968,485	968,485	-	-
Financial liabilities	14	39,492	25,513	-	-
Provisions	15	94,135	24,178	-	-
TOTAL NON-CURRENT LIABILITIES		1,102,112	1,018,176	-	-
TOTAL LIABILITIES		1,594,749	1,756,817	77,669	311,765
NET ASSETS		8,355,240	8,724,555	4,998,340	5,327,568
SHAREHOLDERS EQUITY					
Share Capital	17	6,600,557	6,600,557	6,600,557	6,600,557
Asset revaluation reserves		1,559,261	1,559,261	-	-
Accumulated losses		(1,722,433)	(1,349,976)	(1,602,217)	(1,272,989)
TOTAL PARENT ENTITY INTEREST		6,437,385	6,809,842	4,998,340	5,327,568
TOTAL MINORITY INTEREST	18	1,917,855	1,914,713	-	-
TOTAL EQUITY		8,355,240	8,724,555	4,998,340	5,327,568

The accompanying notes form part of these financial statements.

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**STATEMENT OF CHANGES IN EQUITY
AS AT 30 JUNE 2006**

	Economic Entity						Parent Entity		
	Attributable to Equity Holders of the Parent				Minority Interest \$	Total Equity \$	Contributed Equity \$	Accumulated Losses \$	Total Equity \$
	Contributed Equity \$	Accumulated Losses \$	Asset Revaluation Reserve \$	Total \$					
Balance as at 30 June 2004	6,575,557	(1,283,537)	259,575	5,551,595	712,102	6,263,697	6,575,557	(1,068,380)	5,507,177
Shares issued	25,000	-	-	25,000	-	25,000	25,000	-	25,000
Share of changes in Associate's reserves	-	-	1,299,686	1,299,686	552,065	1,851,751	-	-	-
Increase minority interest equity	-	-	-	-	627,072	627,072	-	-	-
Profit/(Loss) for the period	-	(380,476)	-	(380,476)	23,474	(357,002)	-	(204,609)	(204,609)
Income or expenses recognised directly to equity	-	314,037	-	314,037	-	314,037	-	-	-
Balance as at 30 June 2005	6,600,557	(1,349,976)	1,559,261	6,809,842	1,914,713	8,724,555	6,600,557	(1,272,989)	5,327,568
Profit/(Loss) for the period	-	(372,457)	-	(372,457)	3,142	(369,315)	-	(329,228)	(329,228)
Balance as at 30 June 2006	6,600,557	(1,722,433)	1,559,261	6,437,385	1,917,855	8,355,240	6,600,557	(1,602,217)	4,998,340

The accompanying notes form part of these financial statements.

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006**

	Note	Economic Entity		Parent Entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
CASH FLOW FROM OPERATING ACTIVITIES					
Receipts from customers and others		3,423,505	3,168,292	-	211,026
Payments to suppliers and employees		(3,575,891)	(3,448,345)	(593,401)	(569,709)
Interest received		20,027	20,759	19,179	19,356
Borrowing costs		(57,907)	(9,861)	(41,246)	(1,430)
Distribution received		139,848	89,326	-	-
Net cash used in operating activities	19(b)	(50,418)	(179,829)	(615,468)	(340,757)
CASH FLOW FROM INVESTING ACTIVITIES					
Proceeds from the sale of property, plant and equipment		-	22,800	-	-
Payment for property, plant and equipment		(395,028)	(464,965)	(893)	(1,454)
Proceeds from the sale of investments		-	975,450	-	975,450
Payment for investments		(139,848)	(83,300)	-	-
Net cash (used in)/provided by investing activities		(534,876)	449,985	(893)	973,996
CASH FLOW FROM FINANCING ACTIVITIES					
Net proceeds from share issue		-	-	-	-
Repayments of borrowings		(15,850)	(11,562)	-	-
Net cash used in financing activities		(15,850)	(11,562)	-	-
Net increase/(decrease) in cash held		(601,144)	258,594	(616,361)	633,239
Cash at the beginning of the financial year		854,454	595,860	712,312	79,073
Cash at the end of the financial year	19(a)	253,310	854,454	95,951	712,312

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 2006**

INTRODUCTION

The financial report covers State Development Fund Limited for the year ended 30 June 2006 as an individual parent 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.

There registered office and principal place of business is Suite122D, 530 Little Collins Street, Melbourne, Victoria. The principal activity of the economic entity during the financial year was acting as a PDF providing financial and management support for its investee companies. The financial statements are presented in Australian dollars.

The financial report was authorised for issue by the Board of Directors of State Development Fund Limited on the date shown on the Declaration by the Board of Directors attached to the Financial Statements.

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 Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report has been prepared on a going concern and 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.

Financial Report Complies with AIFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (IFRS). Compliance with the Australian equivalents to IFRS (AIFRS) ensures that the financial report, comprising the group's financial statements and notes and the parent entity financial statements and notes of Auspep Holdings Limited, complies with AIFRS.

The company changed its accounting policies on 1 July 2005 to comply with AIFRS. The transition to AIFRS is accounted for in accordance with Accounting Standard AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards" with 1 July 2004 as the date of transition. An explanation of how the transition from supersede policies to AIFRS has affected the company's financial position, financial performance and cash flows is discussed in note 29.

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 20.

The consolidated financial statements combine the financial statements of State Development Fund Limited (parent) and all of its subsidiaries.

The effects of all transactions between entities in the economic entity have been eliminated in full and the consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Minority interest is that portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent.

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

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

(b) Impairment

At each reporting date the Company reviews the carrying amounts of assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss if any. The Directors are satisfied that the carrying amounts of assets do not exceed the net amounts that are expected to be recovered through the cash inflows and outflows arising from the continued use and subsequent disposal of the assets.

(c) Significant Judgements and Key Assumptions

No significant judgements have been made in applying accounting policies that have a significant effect on the amounts recognised in the financial statements.

The estimated cash flows to be generated from subsidiaries are based on current market evidence with an appropriate discount rate applied, or underlying assets of the subsidiary. Based on the factors described in note 11, the directors are confident the estimates are appropriate in the current market however if these cash flows are not realised there is a risk that the carrying value of goodwill would be impaired. Other than this, no key assumptions have been made concerning the future and there are no other key sources of estimation uncertainty at the balance date that the Directors consider have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(d) Investments in Subsidiaries

In the separate financial statements of the parent, investments in subsidiaries that are not classified as held for sale are accounted for at cost.

(e) Investments in Associates

An associate is an entity over which the economic entity has significant influence.

In the consolidated financial statements investments in associates are accounted for using the equity method except when the investment is classified as held for sale, in which case it is measured at the lower of its carrying amount and fair value less costs to sell.

(f) Plant and Equipment

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

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

Class of Fixed Asset	Depreciation Rates	Depreciation Basis
Motor Vehicles	22.5%	Straight Line
Plant and Equipment	7.5%-33%	Straight Line
Leasehold Improvement	Term of Lease	Straight Line

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

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

(f) Plant and Equipment (Cont'd)

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(g) Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.

Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

(h) 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.

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

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

(i) Cash

For the purposes of the Cash Flow Statement, 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.

(j) Revenue

Revenue is recognised under the following conditions:

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Revenue from the delivery 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 rate applicable to the financial assets.

Any variations to estimates are recognised in the period that the variations became known.

(k) 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 Balance Sheet are shown inclusive of GST.

(l) 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.

(m) 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.

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

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

(n) Income Taxes

Income taxes are accounted for using the comprehensive balance sheet liability method whereby:

- the tax consequences of recovering (settling) all assets (liabilities) are reflected in the financial statements;
- current and deferred tax is recognised as income or expense except to the extent that the tax relates to equity items or to a business combination;
- a deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available to realise the asset;
- deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled.

(o) Foreign Currency Translation and Balances

(i) Translation of Foreign Currency Transactions

Transactions in foreign currencies on initial recognition in the functional currency are recorded by applying to the foreign currency amount the spot exchange rate at the date of the transaction.

At each balance sheet date:

- (a) foreign currency monetary items are reported using the closing rate;
- (b) non-monetary items which are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- (c) non-monetary items which are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were initially translated during the period, or in previous financial statements, are recognised in profit or loss in the period in which they arise, with the exception of exchange differences arising on a monetary item that forms part of the net investment in a foreign operation which are recognised initially in a separate component of equity and recognised in profit or loss on disposal of the net investment.

(ii) Translation of the Financial Statements of Foreign Operations

The following procedures are used in translating the results and financial position of the entity from its functional currency to the presentation currency:

- (a) assets and liabilities at the closing rate at the balance sheet date.
- (b) income and expense items at exchange rates at the dates of the transactions; and
- (c) all resulting exchange differences recognised as a separate component of equity.

(p) Trade and Other 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. The collectability of debts is assessed at balance date.

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

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

(q) Trade and Other Payables

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

(r) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being first-in first-out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(s) Comparative Figures

Comparatives have been reclassified so as to be consistent with the figures presented in the current year. Australian equivalents to International Financial Reporting Standards have been applied to all current and comparative figures consistently.

(t) New and Revised Accounting Standards and Interpretations

State Development Fund Limited has adopted all of the new and revised Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for annual reporting periods beginning on 1 July 2005.

The directors have given due consideration to new and revised standards and interpretations issued by the AASB that are not yet effective, and do not believe they will have any material financial impact on the financial statements of the Company or the consolidated entity.

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
NOTE 2: REVENUE				
- Sales Revenue	2,951,240	2,897,043	-	-
- Interest	20,027	20,759	-	-
- Net foreign currency gain	23,991	8,771	-	-
- Gain on sale of investment	-	-	-	278,700
- Other revenue	30,513	48,750	79,179	19,356
	3,025,771	2,975,323	79,179	298,056

NOTE 3: PROFIT

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

Cost of sales	1,961,350	1,738,428	-	-
Employee benefits expense not included in cost of sales	650,308	804,172	164,669	164,545
Rental expense on operating leases	33,697	119,332	21,798	24,252
Exchange Loss	5,269	-	-	-
Other operating costs	492,697	676,306	176,364	308,439
	3,143,321	3,338,238	362,832	497,236
Finance costs:				
- other persons	57,907	9,861	41,246	1,430
Depreciation of non-current assets:	211,941	114,874	4,329	3,999
Employee Benefit expense	1,096,391	1,053,301	150,797	150,959
Defined Benefit Superannuation contribution	108,417	106,800	13,872	13,586
	1,204,808	1,160,101	164,669	164,545

NOTE 4: INCOME TAX EXPENSE

Major components of income tax expense for the years ended 30 June 2006 and 2005 are:

Current income tax expense/(incurred)	16,314	24,445	-	-
Over provision in prior period	(24,445)	(11,118)	-	-
Changes in temporary differences	(9,952)	(367)	-	-
	(18,083)	12,960	-	-

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

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

- 15%	(52,261)	(33,595)	(52,261)	(33,595)
- 25%	4,795	4,839	4,795	4,839
- 30%	24,669	(12,612)	-	-
Add:				
Losses not brought to account	22,880	38,045	47,466	26,409
Tax effect of:				
Other non-allowable items	1,467	4,647	-	2,347
Over provisions from prior year	(19,633)	11,636	-	-
Income tax expense/(benefit) attributable to profit from ordinary activities	(18,083)	12,960	-	-

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
NOTE 4: INCOME TAX EXPENSE (CONT'D)				
The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.				
Tax Consolidation				
Relevance of tax consolidation to the consolidated entity				
The subsidiary, Auspep Holdings Limited, and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Auspep Holdings Limited. The members of the tax-consolidated group are Auspep Holdings Ltd, Auspep Pty Ltd and Auspep Clinical Peptides Pty Ltd.				
Deferred tax asset arising from tax losses not recognized at balance date as realisation of the benefit is not recognized as virtually certain				
	201,778	178,898	197,743	150,277
NOTE 5: CASH ASSETS				
Cash at bank	253,310	914,475	95,951	712,312
NOTE 6: RECEIVABLES				
CURRENT				
Trade Debtors	197,633	329,939	154,626	77,000
Sundry Debtors	27,199	57,813	20,848	42,001
	224,832	387,752	175,474	119,001
NOTE 7: INVENTORY				
CURRENT				
Raw materials	50,381	53,387	-	-
Work in progress	76,128	-	-	-
Finished goods	93,564	100,276	-	-
	220,073	153,663	-	-
NOTE 8: INVESTMENTS				
Auspep Holdings Limited – at cost	20	-	3,803,250	3,803,250
Australian Regional Airports Pty Ltd – at cost	20	-	1,000,000	1,000,000
		-	4,803,250	4,803,250

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 9: INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD

Interest in Associate	Balance Date	Ownership Interest held by Consolidated Entity		Economic Entity	
		2006	2005	2006	2005
		%	%	\$	\$
Burnie Airport Corporation Pty Ltd as Trustee for the Burnie Airport Corporation Unit Trust	30 June	49%	49%	4,013,792	4,013,792

Principal Activity

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

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Movement in Carrying Amounts of Investments in Associates				
Beginning of year	4,013,792	1,185,349	-	-
Revaluation of land and buildings	-	2,690,861	-	-
Share of Associates Net Profit	-	143,608	-	-
Distributions Received	(139,848)	(89,326)	-	-
Distributions Reinvested	139,848	83,300	-	-
Closing Value	4,013,792	4,013,792	-	-
Share of Associates Assets and Liabilities				
Current assets	580,703	318,615	-	-
Non-current assets	4,545,611	3,766,665	-	-
Current liabilities	(84,998)	(60,021)	-	-
Non-current liabilities	(1,031,712)	(11,467)	-	-
Net Assets	4,009,604	4,013,792	-	-
Retained profits of the consolidated entity attributable to associate				
Balance at the beginning of financial year	143,608	89,326	-	-
Share of associates net profit	-	143,608	-	-
Distributions received from associate	(139,848)	(89,326)	-	-
Balance at end of the financial year	3,760	143,608	-	-
Reserves of the consolidated entity attributable to associate				
Balance at the beginning of the financial year	3,228,284	537,423	-	-
Share of associates reserves	-	2,690,861	-	-
Balance at the end of the financial year	3,228,284	3,228,284	-	-

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
NOTE 10: PLANT AND EQUIPMENT				
Motor Vehicles				
At Cost	106,268	73,016	-	-
Less Accumulated Depreciation	(37,539)	(23,220)	-	-
	<u>68,729</u>	<u>49,796</u>	-	-
Leasehold Improvements				
At Cost	299,965	245,651	-	-
Less Accumulated Depreciation	(59,289)	(14,978)	-	-
	<u>240,676</u>	<u>230,673</u>	-	-
Plant and Equipment				
At Cost	2,076,059	1,775,495	14,433	13,540
Less Accumulated Depreciation	(1,301,114)	(1,187,953)	(13,099)	(8,770)
	<u>774,945</u>	<u>587,542</u>	<u>1,334</u>	<u>4,770</u>
TOTAL PLANT & EQUIPMENT				
At Cost	2,482,292	2,094,161	14,433	13,540
Less Accumulated Depreciation	(1,397,942)	(1,226,151)	(13,099)	(8,770)
	<u>1,084,350</u>	<u>868,010</u>	<u>1,334</u>	<u>4,770</u>
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	49,796	59,722	-	-
Disposals	-	(15,653)	-	-
Additions	33,253	24,650	-	-
Depreciation expense	(14,320)	(18,923)	-	-
Carrying amount at end of year	<u>68,729</u>	<u>49,796</u>	-	-
LEASEHOLD IMPROVEMENTS				
Balance at beginning of year	230,673	235,807	-	-
Additions	54,314	9,814	-	-
Depreciation expense	(44,311)	(14,948)	-	-
Carrying amount at end of year	<u>240,676</u>	<u>230,673</u>	-	-
PLANT AND EQUIPMENT				
Balance at the beginning of the year	587,542	238,273	4,770	7,545
Additions	335,714	430,501	893	1,454
Disposals	-	(230)	-	(230)
Depreciation expense	(148,310)	(81,002)	(4,329)	(3,999)
Carrying amount at end of year	<u>774,946</u>	<u>587,542</u>	<u>1,334</u>	<u>4,770</u>

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
NOTE 11: INTANGIBLE ASSET				
Goodwill				
Balance at the beginning of the financial year	4,092,063	4,158,254	-	-
Derecognition on partial disposal of subsidiary	-	(66,191)	-	-
Balance at the end of the financial year	4,092,063	4,092,063	-	-

The useful life of the intangible asset was estimated as indefinite and the cost method was utilised for its measurement.

During the financial year, the company assessed the recoverable amount of goodwill, and determined that goodwill associated with the company is not impaired. The recoverable amount of the cash-generating units, being the assets of the company and goodwill for each of the two investments, was assessed by reference to the cash-generating units value in use.

\$3,437,339 of the goodwill relates to the investment in Auspep Holdings Ltd. The carrying amount of goodwill is allocated to the cash-generating unit of the company. A discount rate of 20% has been applied to the cash flow projections. The cash flow projections are based on management's five-year budget/forecast experiences.

\$654,724 of the goodwill relates to the investment in Australian Regional Airports Ltd. The carrying amount of goodwill is allocated to the cash-generating unit of the company. A discount rate of 12% has been applied to the cash flow projections. The cash flow projections are based on management's five-year budget/forecast experiences.

NOTE 12: TAX ASSETS

The deferred tax asset consists of:

Accruals	3,600	2,850	-	-
Provisions	62,044	51,231	-	-
Foreign exchange transactions	(4,075)	(2,464)	-	-
	61,569	51,617	-	-

**NOTE 13: TRADE AND OTHER PAYABLES
CURRENT**

Trade creditors	214,835	366,492	39,030	259,972
Sundry Creditors	147,478	142,033	38,639	48,128
	362,313	508,525	77,669	308,100

**NOTE 14: FINANCIAL LIABILITIES
CURRENT**

Secured liabilities				
Hire Purchase Liabilities	22	21,334	17,910	-
Bank Overdraft		-	60,021	-
		21,334	77,931	-

NON-CURRENT

Secured liabilities			-	-
Hire Purchase liabilities	22	39,492	25,513	-

**NOTE 15: PROVISIONS
CURRENT**

Employee benefits		92,676	127,740	-
				3,665

NON-CURRENT

Employee benefits		94,135	24,178	-
				-

Aggregate employee benefits		186,811	151,918	-
				3,665

Average number of employees at year end		19	20	-
				1

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
NOTE 16: TAX LIABILITY				
CURRENT				
Tax liability	16,314	24,445	-	-
NON-CURRENT				
Deferred tax liabilities	968,485	968,485	-	-
NOTE 17: SHARE CAPITAL				
The company has unlimited authorised capital with no par value.				
32,634,000 ordinary shares fully paid (2005:32,634,000)	6,600,557	6,600,557	6,600,557	6,600,557
Number of Shares	2006		2005	
	Number of Shares	\$	Number of Shares	\$
Beginning of the financial year	32,634,000	6,600,557	32,534,000	6,575,557
Issue of shares to satisfy expenses at 25 cents per share	-	-	100,000	25,000
End of financial year	32,634,000	6,600,557	32,634,000	6,600,557
There are no restrictions on distribution of dividends and repayment of capital.				
NOTE 18: MINORITY INTEREST				
Contributed equity	1,232,199	1,232,199		
Reserves	700,538	700,538		
Accumulated losses	(14,882)	(18,024)		
Outside equity interest	1,917,855	1,914,713		
NOTE 19: CASH FLOW INFORMATION				
(a) Reconciliation of cash and cash equivalents				
Cash and cash equivalents at the end of the financial year as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows:				
Cash at bank	253,310	914,475	95,951	712,312
Bank overdraft	-	(60,021)	-	-
	253,310	854,454	95,951	712,312
(b) Reconciliation of cash flow from operations with loss after income tax				
Loss from Ordinary Activities	(369,315)	(357,002)	(329,228)	(204,609)
- Depreciation	211,941	114,874	4,329	3,999
- Share of Associates Profits	139,848	(54,282)	-	-
- Gain/(loss) on disposal of Asset	-	(6,917)	-	229
- Gain on disposal of Auspep Shares	-	-	-	(278,700)
- Equity settled share based payment	-	25,000	-	25,000
- Decrease/(increase) in Receivables	162,920	213,726	(56,473)	211,025
- Increase in Payables	(146,210)	(164,172)	(230,430)	(73,451)
- (Increase)/decrease in Inventory	(66,412)	25,451	-	-
- Decrease in tax liabilities	-	13,327	-	-
- Increase in deferred tax asset	(9,952)	(367)	-	(24,250)
- Increase/(decrease) in provisions	26,762	10,533	(3,666)	-
Cash flow from operations	(50,418)	179,829	(615,468)	(340,757)
(c) The economic entity acquired plant and equipment with an aggregate fair value of \$33,253 (2005: \$24,650) by means of hire purchase.				

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

NOTE 20: CONTROLLED ENTITIES

State Development Fund Limited – Ultimate parent entity.

Subsidiary:	Auspep Holdings Limited
Country of incorporation:	Australia
Percentage owned:	76% (2005 - 76%)

Controlled Entities of Auspep Holdings Limited:

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 2006**

**NOTE 21: SEGMENT REPORTING
BUSINESS SEGMENTS**

	PDF Activities		Airport Management		Peptide Manufacturing		Eliminations		Total	
	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$
Revenue										
External Sales	-	-	160,848	102,526	2,930,240	2,883,843	(139,848)	(89,326)	2,951,240	2,897,043
Inter-segment Sales	-	-	-	-	-	-	-	-	-	-
Total Revenue	-	-	160,848	102,526	2,930,240	2,883,843	(139,848)	(89,326)	2,951,240	2,897,043
Other Income	79,179	19,356	76	162	55,276	58,762	(60,000)	-	74,531	78,280
Share of net profit of Associates	-	-	-	143,608	-	-	-	-	-	143,608
Total segment revenue	79,179	19,356	160,924	246,296	2,985,516	2,942,605	(199,848)	(89,326)	3,025,771	3,118,931
Result										
Segment Results	(329,228)	(204,610)	81,952	88,240	17,808	(16,211)	(139,847)	(224,421)	(369,315)	(357,002)
Depreciation	4,329	3,999			207,612	110,875			211,941	114,874
Assets										
Segment Assets	5,076,009	5,639,333	813,531	665,579	4,794,086	4,704,249	(733,637)	(527,789)	9,949,989	10,481,372
Investment in equity accounted associate – included in segment assets	-	-	4,013,792	4,013,792	-	-	-	-	4,013,792	4,013,792
Acquisition of non current assets	892	1,454	-	-	394,136	463,511	-	-	395,028	464,965
Liabilities										
Segment liabilities	77,767	311,767	169,183	103,103	522,409	400,691	825,390	941,256	1,594,749	1,756,817

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 2006**

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
NOTE 22: EXPENDITURE COMMITMENTS				
Non-cancellable rental operating leases contracted for but not capitalised in the financial statements:				
Payable				
- no later than one year	90,800	88,155	-	-
- later than one year but no later than five years	391,268	379,872	-	-
- later than five years	320,567	422,763	-	-
	802,635	890,790	-	-

	Economic Entity	
	2006	2005
NOTE 23: EARNINGS PER SHARE		
Net Loss	(369,315)	(357,002)
Net loss attributable to outside equity interest	(3,142)	(22,349)
Earnings used to calculate basis and diluted earnings per share	(372,457)	(379,351)
Weighted average number of ordinary shares used in calculating basic and diluted earning per share	32,634,000	32,634,000

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
NOTE 24: AUDITOR'S REMUNERATION				
Audit and Review Fees	66,045	24,000	29,650	15,500
Other Services				
- tax consulting fees	25,000	22,400	25,000	12,400
- forecasting model	6,000	-	-	-
	97,045	46,400	54,650	27,900

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 25: RELATED PARTY DISCLOSURES

Directors

The Directors of the Company during the year were:

Legh Davis
Dr. Andrew Ludekens
Peter King

Michael McDonald
John Nissen

Other Related Party Transactions

Management Fee Income – A management fee of \$60,000 was charged by State Development Fund Limited during the year to Australian Regional Airport Pty Ltd (2005: \$Nil). At 30 June 2006, ARA owed the company \$143,000 (2005: \$77,000).

Director-Related Entity Transactions

Loans

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

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$

NOTE 26: STANDBY ARRANGEMENTS AND CREDIT FACILITIES

The economic entity has access to:

Bank Overdraft Facility	100,000	100,000	-	-
Amount of facility used	-	60,021	-	-
Amount of facility unused	100,000	39,979	-	-

NOTE 27: NON-HEDGED FOREIGN CURRENCY BALANCES

The Australian dollar equivalent of foreign currency balances including the accounts which are not effectively hedged are:

\$US				
Bank	17,657	150,682	-	-
Trade Debtors	157,892	245,704	-	-
\$US				
Trade Creditors	7,448	9,279	-	-

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 28: INTEREST RATE RISK EXPOSURE

(a) Interest Rate Risk

The economic entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

	Weighted Average Interest Rate		Variable Interest		Non-Interest Bearing		Fixed Interest				Total	
							1 Year or Less		1 to 5 Years			
	2006 %	2005 %	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$
Financial Assets:												
Cash	0.5%	1.7%	253,310	914,475	-	-	-	-	-	-	253,310	914,475
Accounts Receivable			-	-	224,832	387,352	-	-	-	-	241,832	387,352
Total Financial Assets	-	-	253,310	914,475	224,832	387,352	-	-	-	-	478,142	1,301,827
Financial Liabilities:												
Accounts Payable	-	-	-	-	362,313	508,523	-	-	-	-	362,313	508,523
Borrowings	8.2%	8.1%	-	60,021	-	-	21,334	17,910	39,492	25,513	60,826	103,444
Total Financial Liabilities			-	60,021	362,313	508,523	21,334	17,910	39,492	25,513	423,139	611,967

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. The company has adopted the policy of only dealing with creditworthy counterparts and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial losses for defaults. The company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The carrying amount of financial assets recorded in the Balance Sheet, net of any provision for losses, represents the company's maximum exposure to credit risk, without taking account of any value of any collateral or other security obtained.

(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**

NOTE 29: IMPACTS OF THE ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (A-IFRS)

The consolidated entity changed its accounting policies on 1 July 2005 to comply with Australian equivalents to International Financial Reporting Standards ('A-IFRS'). The transition to A-IFRS accounted for in accordance with Accounting Standard AASB-1 'First time Adoption of Australian Equivalents to International Financial Reporting Standards' with July 1 2004 as the date of transition.

An explanation of how the transition from superseded policies to A-IFRS has affected the consolidated entities financial position, financial statement and cash flows is set out in the following tables and the noted that accompany the tables.

**Effect of A-IFRS on the Consolidated Balance Sheet
as at 1st July 2004**

	Note	Superseded Policies \$	Effect of transition to A-IFRS \$	A-IFRS \$
Current Assets				
Cash and cash equivalents		595,860	-	595,860
Trade and other receivables		589,851	-	589,851
Inventories		179,114	-	179,114
Prepayments		11,627	-	11,627
Total Current Assets		1,376,452	-	1,376,452
Non Current Assets				
Investments Accounted for using the equity method		1,185,349	-	1,185,349
Plant and Equipment		533,802	-	533,802
Intangible Assets		4,158,254	-	4,158,254
Deferred Tax Assets		51,250	-	51,250
Total Non Current Assets		5,928,655	-	5,928,655
Total Assets		7,305,107	-	7,305,107
Current Liabilities				
Trade and other payables		672,695	-	672,695
Interest bearing liabilities		18,005	-	18,005
Provisions		114,279	-	114,279
Tax Liabilities		11,118	-	11,118
Total Current Liabilities		816,097	-	816,097
Non Current Liabilities				
Deferred tax liabilities	(a)	-	161,227	161,227
Interest bearing liabilities		36,980	-	36,980
Provisions		27,106	-	27,106
Total Non Current Liabilities		64,086	161,227	225,313
Total Liabilities		880,183	161,227	1,041,410
Net Assets		6,424,924	(161,227)	6,263,697
Equity				
Share Capital		6,575,557	-	6,575,557
Asset Revaluation Reserve	(a)	370,822	(111,247)	259,575
Accumulated Losses		(1,283,537)	-	(1,283,537)
Total Parent Entity Interest		5,662,842	(111,247)	5,551,595
Total Minority Interest	(a)	762,082	(49,980)	712,102
Total Equity		6,424,924	(161,227)	6,263,697

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

NOTE 29: IMPACTS OF THE ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (A-IFRS) (Cont'd)

Effect of A-IFRS on the Consolidated Income Statement as at 30th June 2005

	Note	Superseded Policies	Effect of transition to A-IFRS	A-IFRS
		\$	\$	\$
Revenue	(c)	3,994,288	(1,018,965)	2,975,323
Cost of sales		(1,738,428)	-	(1,738,428)
Gross Profit		2,255,860	(1,018,965)	1,236,895
Administration expenses	(b)	(1,244,038)	218,146	(1,025,892)
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 before income tax expense		(239,973)	(104,069)	(344,042)
Income tax expense		(12,960)	-	(12,960)
		(252,933)	(104,069)	(357,002)
Net (profit)/loss attributable to minority interest		15,894	(39,368)	(23,474)
Net result for the period		(237,039)	(143,437)	(380,476)

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

NOTE 29: IMPACTS OF THE ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (A-IFRS) (Cont'd)

Effect of A-IFRS on the Balance Sheet as at 30 June 2005	Note	Superseded Policies Actual \$	Effect of transition to A-IFRS \$	A-IFRS Pro-Forma \$
Current Assets				
Cash and cash equivalents		914,475	-	914,475
Trade and other 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	(b)	3,882,103	209,960	4,092,063
Deferred Tax Assets		51,617	-	51,617
Total Non Current Assets		8,815,522	209,960	9,025,482
Total Assets		10,271,412	209,960	10,481,372
Current Liabilities				
Trade and other payables	(a)	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				
Deferred tax liabilities		-	968,485	968,485
Interest bearing liabilities		25,513	-	25,513
Provisions		24,178	-	24,178
Total Non Current Liabilities		49,691	968,485	1,018,176
Total Liabilities		788,330	968,485	1,756,815
Net Assets		9,483,082	(758,525)	8,724,557
Equity				
Share Capital		6,600,557	-	6,600,557
Asset Revaluation Reserve	(a)	2,227,516	(668,255)	1,559,261
Accumulated Losses		(1,520,577)	170,592	(1,349,985)
Total Parent Entity Interest		7,307,496	(497,663)	6,809,833
Total Minority Interest	(a),(b)	2,175,586	(260,862)	1,914,724
Total Equity		9,483,082	(758,525)	8,724,557

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

NOTE 29: IMPACTS OF THE ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (A-IFRS) (Cont'd)

Effect of A-IFRS on the Cash Flow Statement

There are no material differences between the cash flow statement presented under the A-IFRS and the cash flow statement presented under the superseded policies.

Notes

(a) Income Tax

Adjustment on adoption of balance sheet liability method of income tax. Recognition of deferred tax liability on share of revalued assets held by equity accounted investment

(b) 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 recognised subsequent to the transition date has been adjusted

(c) Gain on Partial Sale of Subsidiary

Under superseded policies, the gain on the partial sale of the entities holding in subsidiary Auspep was recognised in the income statement. Under A-IFRS the gain is recognised directly into equity.

Effect of A-IFRS on Parent Entity

(a) Revenue Recognition

Under superseded policies, the entity recognised the gain or loss on disposal of non current assets on a gross basis by recognizing the proceeds from sale as revenue, and the carrying amount of the asset disposed as an expense. Under A-IFRS, the gain or loss on disposal is recognised on a net basis. The effect of this adjustment was a reduction in revenue of \$696,750 and a reduction in expenses of \$696,750. There was no impact on the loss for the period.

Other than as noted above, there are no material differences between the result, position or cash flows presented under the superseded policies and A-IFRS as at the date of transition, 1 July 2004, or 30 June 2005.

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

DIRECTORS' DECLARATION

The directors of State Development Fund Limited declare that:

- (a) in their opinion the accompanying financial statements and notes have been prepared in accordance with the Corporations Act 2001, comply with Accounting Standards and Corporations Regulations and give a true and fair view of the company's and the consolidated entity's financial position as at 30 June 2006 and of their performance and cash flows for the financial year ended on that date;
- (b) directors have been given the declarations by the Chief Executive Officer and the Chief Financial Officer required by Section 295A; and
- (c) in the directors opinion, 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.

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



Legh Davis
Director and Chairman

Dated this 28th day of September 2006



Chartered Accountants
& Business Advisers

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

Scope

The financial report, remuneration disclosures and directors' responsibility.

The financial report comprises the Income Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement, Notes to the Financial Statements and the Directors' Declaration for State Development Fund Limited (the company) for the year ended 30 June 2006.

The company has disclosed information about the remuneration of key management personnel ("remuneration disclosures"), as required by Accounting Standard AASB 124 Related Party Disclosures under the heading "remuneration report" in pages 6 to 9 of the directors' report, as permitted by the Corporations Regulations 2001.

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. The directors are also responsible for the remuneration disclosures contained in the directors' report.

Audit Approach

We 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 and the remuneration disclosures comply with Accounting Standard AASB 124 and the Corporations Regulations 2001. 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 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 financial position, and of its performance as represented by the results of its operations and cash flows and whether the remuneration disclosures comply with Accounting Standard AASB 124 and the Corporations Regulations 2001.

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

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

Independence

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



Chartered Accountants
& Business Advisers

**INDEPENDENT AUDIT REPORT
TO MEMBERS OF STATE DEVELOPMENT FUND LIMITED (Cont'd)**

Audit Opinion

In our opinion:

1. 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 financial position as at 30 June 2006 and of its 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; and
2. the remuneration disclosures that are contained in pages 6 to 9 of the directors' report comply with Accounting Standard AASB 124 and the Corporations Regulations 2001.

PKF
Chartered Accountants

R A Dean
Partner

28 September 2006
Melbourne

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**SHAREHOLDERS' INFORMATION
AS AT 22 September 2006**

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
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Number of restricted securities on issue	0
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Number of unquoted securities (options)	0
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Number of holders of unquoted securities (options)	0
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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
Ms Maura Mc Cabe	2,400,000	7.35
Mr Michael McDonald	1,818,800	5.57
Mr Issy Lissek	1,600,000	4.90
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	30,718,200	94.13
Remainder	1,915,800	5.87
Total	32,634,000	100.00