



Prospectus

An Offer of a maximum of 38 million Shares at an Offer Price of 25 cents per Share, payable in full on application.

The Minimum Subscription for this Offer is 16 million shares raising \$4 million before expenses of the Offer. The Shares offered under this Prospectus will not be issued unless the Minimum Subscription is raised.

The Offer is not underwritten.

Sponsoring Broker:



Challenger First Pacific

PARTICIPATING ORGANISATION OF THE AUSTRALIAN STOCK EXCHANGE LIMITED

Corporate Directory

State Development Fund Limited
ABN 96 093 639 064

DIRECTORS

Sir Laurence Muir
Chairman

Legh Davis
Deputy Chairman

Peter King
John Andreas Nissen
Michael David McDonald

CHIEF EXECUTIVE OFFICER

Dr Robert Payne

COMPANY SECRETARIES

Edward John Bates
Dr Robert Payne

REGISTERED OFFICE

Level 54, Rialto Building
525 Collins Street
Melbourne Vic 3000
Telephone (03) 9629 1299
Facsimile (03) 9629 1399

WEBSITE

www.statedevelopmentfund.com

SPONSORING BROKER

Challenger First Pacific Limited
Level 33, 101 Collins Street
Melbourne Vic 3000

AUDITOR AND TAXATION ADVISER

PKF
Level 11, CGU Tower
485 La Trobe Street
Melbourne Vic 3000

SOLICITOR TO SDF

Freehills
Level 43
101 Collins Street
Melbourne Vic 3000

SHARE REGISTRY

Computershare Investor Services Pty Limited
Level 12
565 Bourke Street
Melbourne Vic 3000
Telephone 1300 850 505
Facsimile (03) 9611 5710

KEY DATES*

Offer opens Monday, 12 August 2002

Offer closes Friday, 18 October 2002

Expected despatch of
shareholding statements Friday, 25 October 2002

Expected quotation of
Shares on the ASX Tuesday, 29 October 2002

OFFER STATISTICS

Maximum number of
Shares to be issued 38,000,000

Offer Price 25 cents per Share

Shares on issue after listing¹ 45,320,000

Market capitalisation at Offer Price
of 25 cents per Share¹ \$11,330,000

This timetable is indicative only and Applicants are encouraged to submit their Application Forms as early as possible. SDF has the right to close the Offer early or vary any other date and time without prior notice.

¹ Assumes the issue of the maximum number of Shares being 38 million Shares.

IMPORTANT NOTICE

This Prospectus is dated 1 August 2002 and was lodged with the ASIC on that date. Neither the ASIC nor the ASX take any responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates. SDF will apply to the ASX for listing and quotation of the Shares on the ASX within 7 days after the date of this Prospectus. No securities will be issued on the basis of this Prospectus later than 13 months after the date of this Prospectus.

It is important that you read this Prospectus carefully and in full before deciding to invest in SDF. In particular, in considering the prospects of SDF, you should consider the risk factors that could affect the financial performance of SDF in light of your personal circumstances (including financial and taxation issues) and seek professional advice from your accountant, stockbroker, lawyer or other professional adviser before deciding to invest.

The Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. No action has been taken to register or qualify the Shares or the Offer, or to otherwise permit a public offering of Shares, in any jurisdiction outside Australia. The distribution of this Prospectus outside Australia may be restricted by law and persons who come into possession of this Prospectus outside Australia should seek advice and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

This Prospectus is available in electronic form via www.statedevelopmentfund.com. The Offer constituted by this Prospectus in electronic form is available only to persons receiving this Prospectus in electronic form within Australia. Persons having received a copy of this Prospectus in its electronic form may, during the Offer period, obtain a paper copy of the Prospectus (free of charge) by telephoning the Share Registry on 1300 850 505. Applications for Shares may only be made on the Application Form attached to or accompanying this Prospectus or in its paper copy form as downloaded in its entirety from www.statedevelopmentfund.com. The Corporations Act prohibits any person from passing on to another person the Application Form unless it is attached to or accompanies a hard copy of this Prospectus or the complete and unaltered electronic version of this Prospectus.

The Corporations Act prohibits SDF from processing applications in the seven day period after the date of lodgement of the Prospectus. This period may be extended by ASIC by up to a further seven days. This period is an exposure period to enable the Prospectus to be examined by market participants prior to the raising of funds. Applications received during the exposure period will not be processed until after the expiry of that period. No preference will be conferred on Applications received in the exposure period.

Photographs used in this Prospectus which do not have descriptions are for illustration only and should not be interpreted

to mean that any person shown endorses the Prospectus or its contents or that the assets shown in them are owned by SDF.

By filling out the Application Form to apply for Shares, you are providing personal information to SDF through SDF's service provider, the Share Registry, which is contracted by SDF to manage Applications. SDF, and the Share Registry on its behalf, collect, hold and use that personal information in order to process your Application, service your needs as a Shareholder, provide facilities and services that you request and carry out appropriate administration.

If you do not provide the information requested in the Application Form, SDF and the Share Registry may not be able to process or accept your Application.

Your personal information may also be used from time to time to inform you about other SDF products and services which it considers may be of interest to you. If you do not want your personal information to be used for this purpose please tick the appropriate box on the Application Form.

Your personal information may also be provided to SDF's agents and service providers on the basis that they deal with such information in accordance with SDF's privacy policy. SDF's agents and service providers may be located outside Australia where your personal information may not receive the same level of protection as that afforded under Australian law. The types of agents and service providers that may be provided with your personal information and the circumstances in which your personal information may be shared are:

- the Share Registry for ongoing administration of the register;
- printers and other companies for the purpose of preparation and distribution of statements and for handling mail;
- market research companies for the purpose of analysing the SDF shareholder base and for product development and planning; and
- legal and accounting firms, auditors, contractors, consultants and other advisers for the purpose of administering, and advising on, the Shares and for any associated actions.

You may request access to your personal information held by (or on behalf of) SDF. You may be required to pay a reasonable charge to the Share Registry in order to access your personal information. You can request access to your personal information by writing to or telephoning the Share Registry as follows:

Computershare Investor Services Pty Limited
GPO Box 52
Melbourne Vic 3001
Tel: 1300 850 505

No person named in this Prospectus, nor any other person, guarantees the performance of SDF, the repayment of capital or the payment of a return on the Shares.

Certain terms and abbreviations used in this Prospectus have defined meanings which are explained in the Glossary of Terms in Section 11.

Contents

	Page		
1	Investment Overview	5	7
1.1	Business Overview	5	7.1
1.2	No Underwriting	5	7.2
1.3	Description of the Offer.	5	7.3
1.4	Key Offer Statistics.	5	7.4
1.5	Purpose of the Offer and Application of Funds	5	7.5
1.6	Capital Structure.	6	7.6
1.7	Dividend Policy	7	7.7
1.8	Taxation Considerations.	7	7.8
1.9	Investment Risks.	7	
1.10	Forecasts	7	8
2	Details of the Offer	8	Pooled Development Fund.
2.1	The Offer	8	8.1
2.2	Timetable	8	8.2
2.3	How to Apply for Shares.	8	8.3
2.4	Issue of Shares.	8	8.4
2.5	Minimum Subscription	8	8.5
2.6	No Underwriting	8	8.6
2.7	ASX Listing	9	8.7
2.8	CHESS.	9	8.8
2.9	Overseas Applicants.	9	8.9
2.10	Withdrawal	9	8.10
3	Investment Philosophy	10	8.11
3.1	SDF.	10	8.12
3.2	The Investment Strategy.	10	
4	Investments	11	9
4.1	Current and Proposed Investments	11	Independent Taxation Report
4.2	ARA.	12	
4.3	Auspep.	13	10
5	Board and Management.	15	Additional Information
5.1	Board of Directors	15	10.1
5.2	Management Skills.	16	10.2
5.3	Corporate Governance	17	10.3
5.4	Composition of the Board.	17	10.4
5.5	Board Committees.	17	10.5
5.6	Ethical Standards	17	10.6
5.7	Directors' and Senior Management's Dealings in Company Shares	17	10.7
5.8	Business Risk Management.	18	10.8
5.9	Independent Professional Advice	18	10.9
6	Financial Information	19	10.10
6.1	Introduction	19	10.11
6.2	Statement of Financial Position.	19	
6.3	Statement of Financial Performance	20	11
6.4	Statement of Cash Flows.	21	Glossary of Terms
6.5	Principal Accounting Policies.	22	12
			Application Forms
			43



Chairman's Letter

1 August 2002

Dear Investor

I welcome the opportunity to invite you to become a shareholder in State Development Fund Limited, a pooled development fund with an investment program aiming to establish a portfolio of diverse investments, initially focusing on the life sciences and infrastructure industries. State Development Fund's investment philosophy is to invest in companies displaying strong potential for capital growth, and which have business plans with a clear path to profitability.

Under the Pooled Development Funds Act 1992, the Commonwealth Government has recognised the need to encourage the raising of development capital to foster promising Australian companies, especially those with potential to enter global markets. The Board strongly supports this concept.

Investors in pooled development funds enjoy tax concessions, including tax free capital gains on the sale of their shares, and in many cases the treatment of dividends as exempt income, or in other cases, as fully franked income.

State Development Fund has made an initial investment in Australian Regional Airports Pty Ltd ("ARA"), a regional airport investment and management company. SDF has acquired 38% of the shares in ARA and has an option to increase this shareholding to either 50.1% or 60%. It is the intention of the Board of Directors of ARA to grow ARA by acquiring a portfolio of regional airports across Australia, which represent regional gateways to their respective geographic regions. The Board of SDF supports this growth plan.

In addition, SDF has entered into a subscription deed to acquire 30% of Auspep Pty Ltd ("Auspep"), an established Australian manufacturer and distributor of synthetic peptides. Auspep has an impressive international and domestic customer base and plans to embark on global expansion with a particular emphasis on the US market. The Board of Directors of Auspep intends to establish a good manufacturing practice (GMP) accredited manufacturing facility in Australia within the next 2 years. This should qualify Auspep to apply for Therapeutic Goods Association (Australia) and CEMark (Europe) endorsement of its products for human use within the following 12 months, thereby significantly expanding upon its global customer reach and consequently increasing its returns and profitability.

Both ARA and Auspep, both of which are entities associated with certain shareholders and directors of SDF, are examples of the investment philosophy of SDF.

It is the intention of the Board to investigate additional investments which are consistent with this investment philosophy and ultimately realise the value of its investments through appropriate and timely exit strategies.

I commend this Prospectus to you and look forward to welcoming you as a shareholder of State Development Fund Limited.

Yours sincerely

Sir Laurence Muir
Chairman

State Development Fund Ltd

ABN 96 093 639 064

Level 54, Rialto Building
525 Collins Street
Melbourne VIC 3000

Tel: 03 9629 1299

Fax: 03 9629 1399

Investment Highlights

SDF (*State Development Fund Limited*)

- SDF is a Pooled Development Fund (PDF) providing investors with certain tax benefits
- SDF's investment philosophy is to achieve capital growth for its shareholders through investment in small or medium sized Australian companies across a range of industries.
- The investee companies will need to possess a number of attributes including growth potential in a global context and a clear path to profitability.
- SDF has a strong Board and management team which possess the complementary skills necessary to achieve this investment philosophy.
- No management or incentive fees other than management's initial shareholding.
- SDF already has existing and potential investments as referred to below.

ARA

- SDF has a 38% interest in Australian Regional Airports Pty Ltd with an option to increase that interest to either 50.01% (for \$273,000) or 60% (for \$500,000).
- ARA has an indirect 49% interest in Burnie Wynyard Airport in Northern Tasmania.
- ARA has a strategic alliance with AOS Airport Consulting Pty Ltd, a company with over 30 years experience in airport operations, engineering and management.
- ARA's primary objective is to acquire interests in a sufficient number of regional airports to achieve economies of scale as well as profitability.
- Colliers Jardine (VIC) Pty Ltd valued the Burnie Wynyard Airport for mortgage purposes for the National Australia Bank which lent funds to BAC to finance the acquisition of the airport.



Auspep

- SDF has entered into a conditional subscription agreement to acquire a 30% interest in Auspep Pty Ltd for \$1,250,000.
- Auspep is an established manufacturer and distributor of synthetic peptides.
- Auspep already possesses an impressive domestic and international client list.
- Auspep's primary objective is to further expand its client base by developing GMP accredited manufacturing facilities.
- Deloitte Touche Tohmatsu has recently prepared a 5 year business plan for Auspep.



1. Investment Overview

This summary is not intended to provide full information on the Shares offered by this Prospectus. In deciding to apply for Shares, you should read this Prospectus carefully in full. If you are in doubt as to the course you should follow, please consult your professional adviser or stockbroker.

1.1 Business Overview

SDF is a pooled development fund which was registered under the Pooled Development Funds Act 1992 (Cth) on 23 August 2000. In accordance with this legislation, SDF aims to achieve capital growth for its Shareholders by providing patient equity capital to small or medium sized Australian companies. The Board intends to pursue a strategy of investing in companies which meet SDF's investment philosophy - namely a strong potential for capital growth and business plans with a clear path to revenue and profitability. The Board intends to make investments across a select number of market sectors to spread risk and enhance profitability. The Directors have already identified investments in two small to medium sized companies that demonstrate a potential for growth with patient equity capital and strategic advice and expertise.

The existing and potential investments are involved in diverse areas of business in accordance with SDF's broad portfolio approach. They are:

- (a) Australian Regional Airports Pty Ltd ("**ARA**"), which is a newly established company pursuing business in existing regional airport infrastructure ownership and management; and
- (b) Auspep Pty Ltd ("**Auspep**"), which is an established commercial biotechnology company principally producing synthetic peptides and other related products.

For further information on SDF's proposed investments, please see Section 4.

1.2 No Underwriting

The Offer is not underwritten. The Sponsoring Broker to the Offer is Challenger First Pacific Limited. A summary of the Sponsoring Broker Agreement appears in Section 10.5(e).

1.3 Description of the Offer

This Prospectus offers up to 38 million Shares at an Offer Price of 25 cents per Share to raise a maximum of \$9.5 million. The Minimum Subscription under this Prospectus is 16 million Shares to raise \$4 million.

The Shares offered under this Prospectus will not be issued unless the minimum subscription is raised.

1.4 Key Offer Statistics

The following table shows the key Offer statistics for the Minimum Subscription as well as the Maximum Subscription.

	Minimum Subscription	Maximum Subscription
Offer Price	25 cents	25 cents
Shares held by existing shareholders	7,320,000	7,320,000
Shares offered under this Prospectus	16,000,000	38,000,000
Total number of Shares on issue after listing on the ASX	23,320,000	45,320,000
Market capitalisation at Offer Price of 25 cents per Share	\$5,830,000	\$11,330,000
Number of existing options ¹	1,000,000	1,000,000
Total number of Shares and options (fully diluted)	24,320,000	46,320,000

Notes:

¹ These are options issued to Dr Robert Payne as referred to in Section 10.5(d). They will remain unlisted.

1.5 Purpose of the Offer and Application of Funds

(a) The primary purpose of the Offer is to raise funds:

- to subscribe for equity in investee companies as set out in this Prospectus;
- to pay the expenses of the Offer;
- to provide working capital for SDF; and
- to allow for further funding of new or existing investments where appropriate.

(b) If only the Minimum Subscription is received under the Offer, the funds will be used:

- subject to future due diligence by SDF - to subscribe for an additional 12.01% (for \$273,000) or 22% (for \$500,000) of the equity in ARA;
- subject to future due diligence by SDF - \$1,250,000 to subscribe for 30% of the equity in Auspep;
- approximately \$550,000 to provide for issue expenses;

- to repay a loan (which is a “permitted short term borrowing” as defined in the PDF Act) of \$145,030 as at 30 June 2002 from Rhys Securities Pty Ltd; and
- the balance to provide working capital for SDF which includes the funding of new or existing investments where appropriate.

(c) If more than the Minimum Subscription is received under the Offer, the funds will be used as set out in Section 1.5(b), with the excess used to fund additional issue expenses associated with the Offer (up to an additional \$350,000 in the case of a Maximum Subscription) and the working capital requirements of SDF which include the funding of new or existing investments where appropriate.

The Directors are of the opinion that SDF, on completion of the Offer, will have sufficient working capital to carry out its stated objectives.

1.6 Capital Structure

SDF was registered as a public company on 5 July 2000. Upon completion of the Offer it will have the capital structure illustrated in the table below (which illustrates the capital structure for a Minimum Subscription as well as a Maximum Subscription):

Shareholder	Minimum Subscription		Maximum Subscription	
	No. of Shares	%	No. of Shares	%
Rhys Securities Pty Ltd ¹	2,502,800	10.73	2,502,800	5.52
Mac-Law Pty Ltd ²	1,200	-	1,200	-
Peter King ³	1,498,600	6.43	1,498,600	3.31
John Nissen ³	1,498,600	6.43	1,498,600	3.31
Michael McDonald ⁴	1,818,800	7.80	1,818,800	4.01
Shares issued under Offer	16,000,000	68.61	38,000,000	83.85
Total issued capital on completion of the Offer⁵	23,320,000	100	45,320,000	100

Notes:

¹ An entity associated with Peter King and John Nissen, directors of SDF.

² An entity associated with Michael McDonald, a director of SDF.

³ These Shares have been issued to these Directors and these Directors have not paid cash to acquire these Shares as set out in Section 10.6.

⁴ 1,498,800 of these Shares have been issued to Michael McDonald and Michael McDonald has not paid cash for these Shares as set out in Section 10.6. The other 320,000 of these Shares have been issued to Michael McDonald at 25 cents each in compensation for legal services provided by him through an associated entity to the value of \$80,000.

⁵ SDF also has 1,000,000 options on issue (see Sections 1.4. and 10.5(d)).

1.7 Dividend Policy

The Directors do not anticipate declaring any dividends for the two year period commencing from the date of this Prospectus. After this period, dividends would only be payable if SDF's profitability, cash flow and capital requirements enabled a distribution to be declared by the Directors and the Directors chose to do so. There is no guarantee that any dividend will be franked.

1.8 Taxation Considerations

SDF is a PDF under the PDF Act. To encourage investment in PDFs, various tax concessions are conferred on both PDFs and their shareholders. These concessions include concessional income tax rates for PDFs, exemption from tax on capital gains made by investors on the sale of PDF shares, exemptions from tax on certain dividend income and various franking credit concessions.

Further details on PDFs and the accompanying taxation concessions are set out in Sections 8 and 9.

1.9 Investment Risks

Applicants should be aware that there are risks associated with any investment in the share market. In addition, there are a number of risk factors specific to SDF, the present and future industries in which investee companies of SDF currently operate and may operate in the future and relating to the general business environment. Such risk factors may impact on the performance and financial position of SDF. Applicants should read this Prospectus in full to appreciate the risk factors associated with an investment in SDF. Details of the key risk factors of which Applicants should be aware are set out in Section 7.

1.10 Forecasts

As a result of factors such as those referred to in Section 1.9, the Directors of SDF consider that they do not have reasonable grounds for a directors' forecast of future revenue or profitability that would be suitable to include in this Prospectus. Further information relating to the prospects of SDF is contained throughout this Prospectus.



2. Details of the Offer

2.1 The Offer

Applicants are invited by SDF to subscribe for up to 38 million Shares at the Offer Price of 25 cents per Share. Applications must be for a minimum of 8,000 Shares and thereafter in multiples of 1,000 Shares. SDF reserves the right to issue Shares to Applicants in full, to issue a lesser number of Shares than those for which an application has been made or to decline an application. An application will be treated as irrevocable.

Payment in respect of the Shares is to be made in full on application. The rights attaching to the Shares are detailed in Section 10.4. No brokerage or stamp duty is payable by Applicants under the Offer.

2.2 Timetable

Offer opens	Monday, 12 August 2002
Offer closes	5:00 pm AEST Friday, 18 October 2002
Expected despatch of shareholding statements	Friday, 25 October 2002
Expected quotation of Shares on the ASX	Tuesday, 29 October 2002

All dates are subject to change and are indicative only. SDF has the right to vary these dates, without prior notice, including the right to close the Offer early or to withdraw the Offer. Applicants are encouraged to submit their Application Forms as early as possible.

2.3 How to Apply for Shares

Application for Shares may only be made on the Application Form attached to and forming part of this Prospectus or in its paper copy form as downloaded in its entirety from "www.statedevelopmentfund.com". Detailed instructions on how to complete the Application Form are set out on the reverse of the Application Form.

An application must be made by completing a paper copy of the Application Form and must be accompanied by payment in Australian currency of 25 cents per Share.

Cheques or bank drafts must be made payable to the "State Development Fund Share Offer Account" and should be crossed and marked "Not Negotiable". SDF will not accept an Application Form electronically. Completed Application Forms and Application Monies must be returned to:

State Development Fund Limited Share Offer
Computershare Investor Services Pty Limited
GPO Box 52
Melbourne Vic 3001

Applicants with questions on how to complete the Application Form or who require additional copies of the Prospectus can contact the Share Registry on 1300 850 505 or visit the website "www.statedevelopmentfund.com" to download a copy of the Prospectus.

2.4 Issue of Shares

SDF will issue Shares as soon as possible after the Closing Date. SDF will allocate the Shares and reserves the right to allocate the Shares offered under this Prospectus in full on any application or to allocate any lesser number of Shares than that applied for, or decline any application. Where no allocation is made to a particular Applicant or the number of Shares allocated is less than the number applied for by an Applicant, surplus Application Monies will be returned to that Applicant. No interest will be paid on refunded Application Monies. Any interest earned on Application Monies prior to issue or return will be, and will remain, the property of SDF.

Successful Applicants will be notified in writing of the number of Shares allocated to them as soon as possible following the allocation made after the Closing Date. It is the responsibility of Applicants to confirm the number of Shares allocated to them prior to trading in Shares. Applicants who sell Shares before they receive notice of the Shares allocated to them do so at their own risk.

In the event that admission to the Official List is denied, or for any reason the Offer does not proceed, all Application Monies will be refunded in full without interest.

2.5 Minimum Subscription

The Minimum Subscription for this Offer is 16 million Shares raising \$4 million before expenses of the Offer.

The Shares offered under this Prospectus will not be issued unless the Minimum Subscription is achieved.

2.6 No Underwriting

The Offer is not underwritten. The Sponsoring Broker to the Offer is Challenger First Pacific Limited. A summary of the Sponsoring Broker Agreement appears in Section 10.5(e).

2.7 ASX Listing

An application will be made to the ASX not later than 7 days after the date of this Prospectus for SDF to be admitted to the Official List and for official quotation of the Shares on the ASX.

The fact that the ASX may admit SDF to the Official List is not to be taken as an indication of the merits of SDF or the Shares offered for subscription. Official quotation of Shares, if granted, will commence as soon as practicable after the issue of initial statements of holding to successful Applicants.

If the Shares are not admitted to quotation within three months of the date of this Prospectus, all Application Monies received will be refunded without interest as soon as practicable in accordance with the Corporations Act.

2.8 CHESS

SDF will apply for the Shares to participate in the Clearing House Electronic Sub-register System ("CHESS"). Applicants who are issued Shares under this Offer will receive shareholding statements, in lieu of share certificates, that set out the number of Shares issued to each successful Applicant.

The statement will also provide details of the Shareholder's HIN (in the case of a holding on the CHESS sub-register) or SRN (in the case of a holding on the issuer sponsored sub-register). Shareholders will be required to quote a HIN or SRN, as applicable, in all dealings with a stockbroker or the Share Registry. Further statements will be provided to Shareholders which will reflect any changes in the shareholding in SDF during a particular month. Additional statements may be requested at any time, although SDF reserves the right to charge a fee.

2.9 Overseas Applicants

No action has been taken to register or qualify the Shares, or the Offer, or otherwise to permit the public offering of the Shares, in any jurisdiction outside Australia.

The distribution of this Prospectus within jurisdictions outside Australia may be restricted by law and persons into whose possession this Prospectus comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of those laws.

The Prospectus does not constitute an offer of Shares in any jurisdiction where, or to any person to whom, it would be unlawful to issue this Prospectus.

It is the responsibility of any overseas Applicant to ensure compliance with all laws of any country relevant to his or her application. The return of a duly completed application will be taken by SDF to constitute a representation and warranty that there has been no breach of such law and that all necessary approvals and consents have been obtained.

2.10 Withdrawal

SDF reserves the right not to proceed with the Offer at any time before the issue of Shares to successful Applicants. If the Offer does not proceed, Application Monies will be refunded. No interest will be paid on any Application Monies refunded as a result of the withdrawal of the Offer.



3. Investment Philosophy

3.1 SDF

SDF was registered as a public company on 5 July 2000. It was registered as a PDF under the PDF Act on 23 August 2000.

3.2 The Investment Strategy

The Board of SDF aims to achieve capital growth for Shareholders through investing in small or medium sized Australian companies across a range of industries. Details of the current and proposed investments are set out in Section 4.1. Investment will take the form of providing patient equity capital to a company and also strategic advice to assist in its development.

Unlike other PDFs which utilise the services of an investment management company, the Directors and management of SDF intend to use their own experience in venture capital raisings, restructuring and strategic planning to help shape the direction, management structure and capital raising activities of investee companies. The Board will assist the investee companies to put in place sound investment strategies to ensure that they achieve growth and increased profitability for their shareholders including SDF.

The Directors intend to invest in small to medium sized enterprises, which demonstrate some, if not most, of the following attributes:

- (a) significant growth potential, in a global context;
- (b) competitive advantage in a particular market niche or sector;
- (c) in the case of technology companies, a leading edge technology or product;
- (d) adequate legal protection of intellectual property;
- (e) a need for capital injection to realise full growth potential;
- (f) an operational management structure that is responsive to change and expansion; and
- (g) a robust business plan, or one capable of being developed, which shows a clear path to profitability.

While SDF's investment focus will be on unlisted companies, it may, from time to time, also invest in listed companies. One of the benefits of investing in unlisted companies at an earlier stage of their development is that the purchase price of the investment may be lower.

Before making an investment, the Board will conduct investigations and undertake the due diligence that it considers necessary, including a thorough investigation

of the investee company's business plan. An investment will only be made where the investment pricing indicates the potential for a strong increase in value based on the investee company's expected future growth assisted by patient equity investment from SDF.

Part of our investment strategy is also to provide strategic advice and board appointments to the investee company where possible. SDF believes that some of the risks associated with its investments may be reduced through the active participation of officers of SDF on the board of directors of the investee companies and by direct involvement in the financial management of those companies.

The Directors will determine the period that an investment should be held in an investee company. The Board intends to allow sufficient time for there to be strategic management input and development in the investee company business, with a view to a profitable exit which satisfies the investment criteria of SDF.

The Directors will consider entities operating in markets and industries that will provide long term growth opportunities for the Shareholders of SDF. The investee companies described in Section 4.1 belong to industries which are attractive to the Directors because of their potential for long term growth. These industries are:

(a) Regional airport ownership and management

The Federal Government has been privatising major city airports over recent years. SDF has identified regional airport ownership and management as a significant opportunity for investment, the returns from which will be derived primarily through capital gains, hence its investment in ARA. The value drivers in this sector are the ability to:

- create economies of scale by increasing the number of airports under management; and
- increase passenger movements, which translates into retail and other opportunities.

(b) Biotechnology

The biotechnology sector is delivering dramatic improvements to the quality of living, health and the environment. SDF has identified Auspep as an investment with the opportunity to increase its international sales by providing a range of high quality products and services to meet its clients' needs.

4. Investments

4.1 Current and Proposed Investments

The Directors have identified the following companies which meet SDF's investment criteria:

- ARA - a regional airport management enterprise; and
- Auspep - a commercial biotechnology manufacturing company.

SDF has entered into an Option Deed with ARA, in respect of an additional investment in ARA after the close of the Offer ("**ARA Option Deed**"). SDF has entered into a Subscription Deed with Auspep in respect of an investment in Auspep after the close of the Offer ("**Auspep Subscription Deed**").

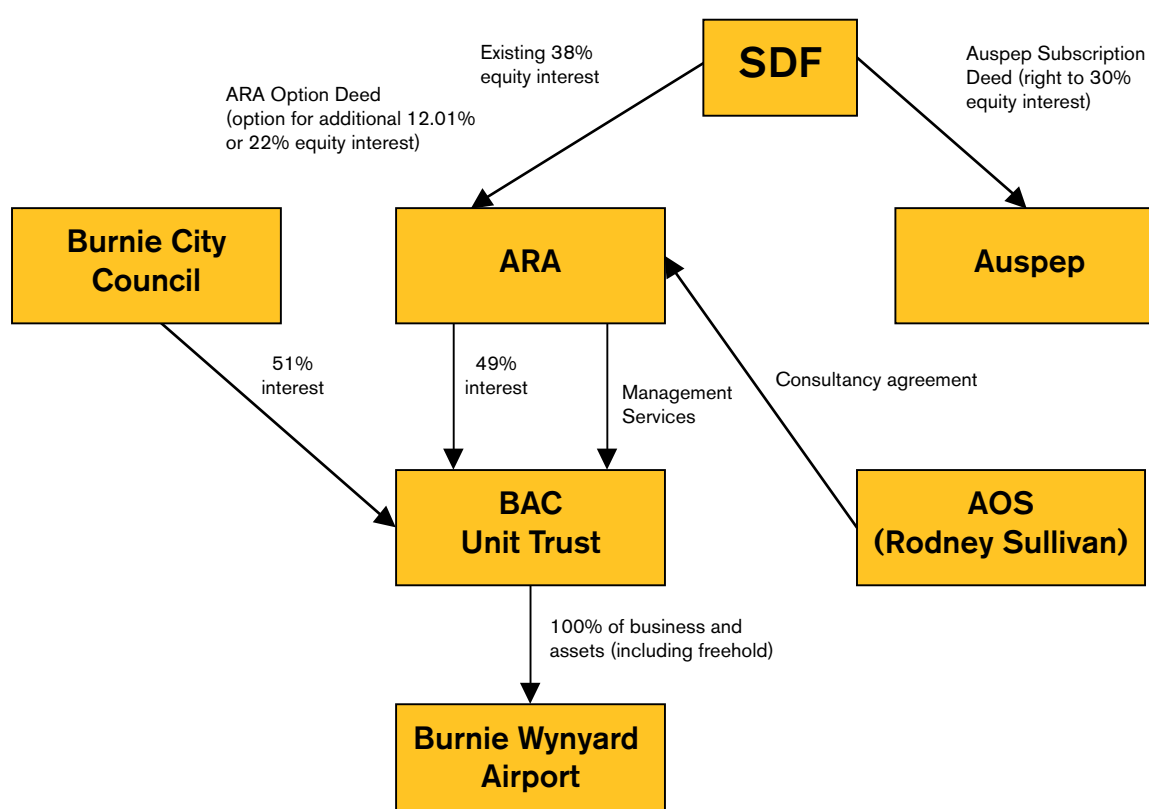
Under the ARA Option Deed, ARA has agreed to grant SDF an option to invest in an additional 12.01% or 22% (at the discretion of SDF) of ARA, acquiring new shares for a consideration of \$273,000 or \$500,000 respectively (depending on the percentage of ARA acquired). SDF has already acquired 38% of the shares in ARA for \$500,000.

Under the Auspep Subscription Deed, SDF has the right to subscribe for new shares in Auspep, which would give SDF a 30% equity interest in Auspep for \$1,250,000.

The ARA Option Deed and Auspep Subscription Deed are subject to a number of conditions for the benefit of SDF, which means that an investment in Auspep, or further investment in ARA, may not proceed. These conditions include SDF's right to conduct further due diligence in relation to each investee company before proceeding to complete the investment. For further details on the ARA Option Deed and the Auspep Subscription Deed, please refer to Sections 10.5(a)(2) and 10.5(c)(1), and for the risks associated with these investments please refer to Section 7.

SDF's arrangements with ARA and Auspep are illustrated below.

Table 4.1 ARA and Auspep Arrangements





Details of these companies are set out below.

4.2 ARA

Background

Prior to 1987, regional airports were owned by the Commonwealth Government. 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. This provides an opportunity for ARA with its aviation, corporate and property experience to fill the void left as a result of the Local Ownership Plan legacy.

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

ARA, in association with AOS (the aviation services consultancy company referred to below), intends to undertake the management and development, which may include ownership in whole or part, of a series of 'gateway' regional airports around Australia. Targeted airports would be located in cities representing regional centres for tourism and business that have also the infrastructure to expand beyond their current capacity in terms of passenger movements.

The intention of the Board of ARA is to acquire interests in a sufficient number of airports under management so as to achieve economies of scale and profitability targets. This should ensure that ARA satisfies the exit strategy of SDF which is to grow ARA so that it becomes an attractive target to a trade buyer or is suitable for an IPO.

The first airport at which ARA has achieved management and part ownership rights is Burnie Wynyard Airport, a gateway to the Cradle Mountain tourist region of Tasmania.

ARA (49% interest) and Burnie City Council (51% interest) have formed a joint venture in the form of the Burnie Airport Corporation Unit Trust, which has acquired the business and assets of the Burnie Wynyard Airport from the Burnie Port Corporation for \$2.5 million. This was purchased through equity and a debt facility for

5 years, provided by the National Australia Bank and supported by an independent mortgage valuation conducted by Colliers Jardine. A summary of the BAC Unitholders and Shareholders Agreement is included in Section 10.5(b)(1).

ARA is responsible for providing management services to BAC including:

- aviation advice and management;
- property advice and management; and
- general commercial advice.

Approximately 92,000 passenger movements and 7,500 aircraft movements were recorded as going through the Burnie Wynyard Airport in the year to 30 June 2000.

ARA has established a relationship with Mr Rodney Sullivan, a director and major shareholder of Airport Consulting Pty Ltd ("AOS"). As stated in section 5.2, Mr Sullivan has over 30 years experience in airport engineering, operations management, standards development, planning and airport environmental management. His contacts within the industry will be of benefit to ARA in seeking out opportunities in this industry. ARA has entered into a consultancy agreement with AOS. A summary of the consultancy agreement is in Section 10.5(a)(3).

AOS is based at the Canberra Airport where it operates modern training facilities and has access to all Canberra Airport areas. AOS maintains regular contact with the Civil Aviation Safety Authority, Airservices Australia and the Department of Transport & Regional Services and Department of Defence personnel.

In addition to Mr Sullivan's expertise in the aviation field, AOS has ready access to personnel who have been involved in:

- managing major Australian airports on a commercial basis;
- managing airport operations;
- developing the current airport standards and regulatory regimes and monitoring airport compliance;
- planning and project managing major airport development and maintenance; and
- providing and maintaining airport databases.

AOS has also established a network of strategic alliances with a number of other aviation consultants and consulting engineers who can provide ARA with access to personnel in specialist areas such as air traffic control, aviation rescue and fire fighting, refuelling and airline fleet management.



SDF's investment and proposed investment in ARA

SDF has acquired a 38% shareholding in ARA for \$500,000 and has an option to acquire a further 12.01% or 22% shareholding in ARA at the discretion of SDF for \$273,000 or \$500,000 (a summary of the ARA Option Deed is in Section 10.5(a)(2)).

ARA is a company of which Messrs Peter King, John Nissen, Michael McDonald and Rodney Sullivan are directors and, through their related entities are the major shareholders. Messrs King, Nissen and McDonald are also directors and shareholders of SDF which holds 38% of ARA's issued capital.

SDF believes the opportunity for growth of ARA derives from the potential to replicate the Burnie Wynyard Airport model at other "gateway" regional airports and to leverage off the strategic relationship with AOS to create a portfolio of regional airports managed and/or owned around Australia. This may require further capital and SDF will explore with ARA the most appropriate means to raise that capital in the light of the opportunities when they present themselves.

4.3 Auspep

Background

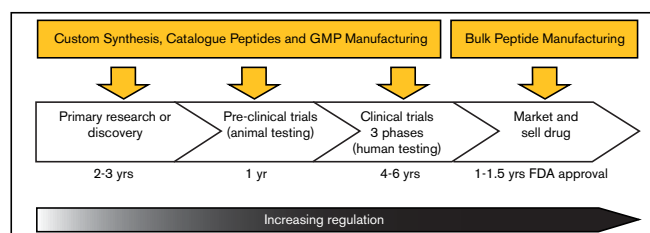
Auspep was incorporated in December 1986. Mr John Nissen is a director and shareholder of both Auspep and SDF. He acquired a controlling interest in Auspep in 1989 and now holds 98.14% of Auspep shares through an associated entity. Auspep caters for the demands of the rapidly emerging market for synthetic biologically active peptides used in research and commercial drug development. Today, this Australian owned company commands a market leadership in custom peptide synthesis in Australia and is exploring larger opportunities for value added GMP grade product here and overseas.

Synthetic peptides are at the core of 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.

Table 4.2 demonstrates an indicative time line involved in the R&D and agricultural, animal and human regulatory phases of development of peptides for the purposes of drug development. As the peptide advances through the clinical trials stages, the requirement for the peptide to be produced in a GMP facility and approved for human use becomes mandatory. To this end, the Board of

Auspep commissioned a 5 year business plan for Auspep by Deloitte Touche Tohmatsu in April 2002 to further those objectives.

Table 4.2: Peptide Development Process



Source: Auspep Business Plan, April 2002

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.

Auspep has assembled a team of skilled professionals and state of the art instrumentation 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.

Since 1997, Auspep's export business has grown due in part to its strategic focus on the US market and through its direct marketing programs. Auspep's international clients include GlaxoSmithKlein (USA), Pharmacia Upjohn (USA), Pfizer (UK), Oncogene Research Products (USA), IBL (Japan), Tocris Cookson (UK), Serono Pharmaceuticals (Swit) and a number of leading academic institutions such as the Harvard Medical School and Cambridge University. This clientbase demonstrates Auspep's ability to compete in the global peptide market. Auspep sees the US market as having significant potential to enhance its sales of peptides.

The Board of Auspep proposes to develop a GMP accredited manufacturing facility within approximately 2 years. If GMP accreditation is granted, this will have a significant positive effect on Auspep's business, as Auspep will then seek TGA, CEMark and FDA approvals



for its peptide products. GMP approved peptides are a key driver of Auspep's growth as they enable peptides to be supplied for human clinical trials. The market for GMP quality peptides is growing strongly and offers higher revenue opportunities when compared to non-GMP catalogue and custom peptides.

The other current objectives of the Board of Auspep are:

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

SDF's overall objective for Auspep is for Auspep to become a globally focused supplier of synthetic peptides for research and drug development with a view to seeking an exit in the medium-term. SDF will encourage Auspep to adopt the following strategies to achieve this objective:

- to look for potential joint ventures or acquisitions in the US market (This strategy of establishing a joint venture or acquiring a US established entity which already has FDA approval for GMP manufacturing will allow the Australian GMP manufacturing facility to focus on the European and Asia Pacific markets, once it is operating at full capacity.);
- to continue to broaden and strengthen the resources of Auspep in the areas of business management and production; and
- to pursue collaborative projects focused on developing Auspep's intellectual property.

SDF's Proposed Investment in Auspep

SDF has entered into a Subscription Deed with Auspep under which SDF has the right to subscribe for a shareholding of 30% in Auspep for \$1,250,000 subject to certain conditions being satisfied (a summary of the terms of the Auspep Subscription Deed is in Section 10.5(c)(1)).



5. Board and Management

5.1 Board of Directors



Sir Laurence Macdonald Muir, VRD, LLB, FSIA, FAIM – Chairman
Age – 77

Sir Laurence was a senior partner of Potter Partners, now UBS Warburg, before retiring after a 30 year career in the capital markets. Since retirement from Potter Partners, Sir Laurence has served

on many corporate boards including the ANZ Banking Group Limited, The Herald and Weekly Times Limited, Alcoa of Australia Limited, National Commercial Union Limited, Australian Consolidated Industries Limited, Air Liquide Limited and Hudson Conway Limited.

Sir Laurence is currently a member of the board of Publishing and Broadcasting Limited and Focus Publishing Pty Ltd. He is Patron of the Baker Medical Research Institute, the Microsurgery Research Foundation and the Earthwatch Institute.



Legh Hewitson Davis, LLB, B.EC, FCPA, FSIA – Deputy Chairman
Age – 61

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. In this time, Mr Davis was the Presiding Member of the Statutory Authorities Review Committee.

After completing four years as a lecturer in Law and Economics at the South Australian Institute of Technology, Mr Davis became an Investment Advisor with AC Goode and Co. and was appointed State Manager in 1978. He remained there until 1990, when he became a consultant to Todd Partners, now a part of the ABN-AMRO Morgans national network. Mr Davis is currently a senior investment adviser with ABN-AMRO Morgans.

Mr Davis is a former State President of the Securities Institute of Australia.



Peter King, LL.B
Age – 65

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, a director and major shareholder of Rhys Securities Pty Ltd and Chairman of Poltech International Limited.

Along with Mr Nissen and Mr McDonald, Mr King is a director and shareholder of ARA, an investee company of SDF.



John Andreas Nissen
Age – 54

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 now a part of UBS

Warburg. After international experience in

London, Mr Nissen became a partner of McCaughan Dyson and Company for 5 years. During this time he was involved in the establishment of the corporate finance department at McCaughan Dyson which specialised in capital raisings and initial public offerings. McCaughan Dyson was acquired by the ANZ Banking Group in 1989, now ANZ Securities Limited.

Since 1989, Mr Nissen has been involved in the resort hospitality industry. He is the current chairman of three timeshare resorts in Australia with a combined ownership base of approximately 8,000 members.

Mr Nissen is a founding shareholder and director of Golf Australia Holdings Limited, and the Chairman of Cendant Australasia Limited and Deputy Chair of Rhys Capital Pty Ltd and Poltech International Limited. He is also a major shareholder of Rhys Securities Pty Ltd.

Mr Nissen is a director and shareholder of ARA and is also a director and the principal shareholder of Auspep, two investee companies of SDF.



Michael David McDonald, BA, LL.B

Age – 45

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 practices 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 and he is a director of Poltech International Limited and a director and shareholder of ARA, the latter an investee company of SDF.

5.2 Management Skills

Unlike many PDFs, SDF does not have a separate management structure. As a result, the management costs of SDF will be kept to a minimum.

The Board and management, as a group, have expertise in venture capital funding, company management, mergers and acquisitions, due diligence, restructuring, international trade and legal matters, which it can employ to assist the investee companies to achieve the goals of both the investee companies and SDF.

The Directors and management also have specialist expertise in early stage investments in small to medium sized companies operating in the technology, industrial and other commercial sectors, including the commercialisation of technology and the implementation of global growth strategies.



Dr Robert Payne, B.Sc (Hons), Ph.D – Chief Executive Officer

Age – 45

SDF has retained the services of Dr Robert Payne as its Chief Executive Officer to assist in administering board policies, acting as joint company secretary and attending to operational matters.

The terms of his employment agreement are set out in Section 10.5(d).

Dr Payne has spent most of his professional career developing markets for technological products within large and small organisations in Australia, Europe and the US. He has wide knowledge and business experience in the biotechnology, chemical and plastics industries.

Dr Payne spent 10 years with BASF, a multinational chemicals and pharmaceutical company, developing plastics for use in the medical and automotive industry. On relocating to the US and after completing executive management studies at Harvard Business School, Dr Payne assumed roles in product management and market development of new high performance plastics until he assumed the responsibility for global accounts management for the plastics material group of BASF Corporation.

Since returning to Australia in 1994, Dr Payne has specialised in growing small businesses, particularly subsidiaries of larger American companies keen to expand their operations in Australia and South East Asia.

Dr Payne was previously employed by stockbroking firms Austock Brokers, HPJDV Limited and D&D Tolhurst, and legal firm Freehills, advising and consulting with clients on public floats, capital raisings and private placements.

Consultant's principal - Mr Rodney Sullivan

Mr Sullivan is an airport operation specialist with over 30 years experience in airport engineering, operations management, standards development, planning and airport environmental management. He has held a number of positions in government departments including the Department of Civil Aviation (Brisbane), Department of Transport and Communications (Canberra), Civil Aviation Authority (Canberra) and, in the private sector as a director and principal consultant to AOS for over 8 years. Mr Sullivan has also advised Burnie City Council on the acquisition of the Burnie Wynyard Airport from the Burnie Port Authority and is currently a guest lecturer at the University of New South Wales, Department of Aviation, in "open airport management".

AOS (of which Mr Sullivan is a director and principal shareholder) has entered into a consultancy agreement with ARA as stated in Section 10.5(a)(3).

5.3 Corporate Governance

The Board is responsible for the overall corporate governance of SDF. The Board's responsibilities include:

- formulating the strategic objectives of SDF and establishing goals designed to promote the achievement of those strategic objectives;
- ensuring that they maintain and inform themselves of SDF's business and financial status at all times;
- approving investments and ongoing evaluation of those investments, including regularly assessing the operational and financial risks in respect of investments;
- guiding and maintaining SDF's affairs and policies based on adequate and accurate information;
- obtaining expert advice on matters outside the expertise of SDF's internal resources;
- at all times exercising due care and diligence and sound business judgement in the performance of their duties;
- considering and approving the Chief Executive Officer's proposals for SDF's annual budgets;
- ensuring that there are appropriate internal controls and ethical standards of behaviour adopted and met within SDF;
- ensuring that the business risks facing SDF are, wherever possible, identified and that appropriate monitoring and reporting controls are in place to manage these risks;
- appointing the Chief Executive Officer, evaluating the performance and determining the remuneration of senior executives, and ensuring that appropriate policies and procedures are in place for recruitment, remuneration and succession planning; and
- monitoring the performance of management against these goals and objectives.

5.4 Composition of the Board

The Board currently consists of the 5 Directors described in Section 5.1.

Any changes to directorships will, for the foreseeable future, be dealt with by the full Board subject to any applicable laws. Accordingly, a nominations committee has not been established.

5.5 Board Committees

The Board has established an Audit and Compliance Committee.

The Audit and Compliance Committee consists of Sir Laurence Muir and Legh Davis. At the discretion of the committee, the external auditor and other members of the Board and management will be invited to Audit and Compliance Committee meetings. The Audit and Compliance Committee will consider any matters relating to the financial affairs of SDF and any other matter referred to it by the Board. The Audit and Compliance Committee will meet at least four times a year.

The Board may delegate some of its monitoring and routine functions to other committees established from time to time by the Board.

5.6 Ethical Standards

The Board believes that the success of SDF will be enhanced by a strong ethical culture within the organisation. As SDF grows, the need to ensure that ethical standards remain high has led the Board to embrace policies to ensure that all Directors, executives and employees act with the utmost integrity and objectivity in their dealings with all people that they come in contact with during their working life.

5.7 Directors' and Senior Management's Dealings in Company Shares

SDF requires that:

- no Director or senior manager should buy or sell Shares without first discussing the matter with the Chairman, and if the Chairman wishes to buy or sell Shares he must discuss the matter with the Board;
- unless there are unusual circumstances, trades in Shares by Directors and senior management are limited to stipulated periods such as immediately following the release of an annual report or price sensitive information;
- Directors and senior management are prohibited from trading in Shares for a short term gain; and
- Directors and senior management be aware of their obligations under the Corporations Act not to buy or sell in shares if in possession of price sensitive non-public information and to ensure that they do not communicate price-sensitive non-public information to any person who is likely to buy or sell Shares or communicate such information to another party.

5.8 Business Risk Management

The Board of Directors considers that the general retention by the Board of the power to make the final investment or divestment decisions by majority vote provides an effective review of business strategies.

The Board is also responsible for identifying and monitoring areas of significant business risk. Internal control measures such as monthly financial and operational reporting to the Board and regular reporting by management and/or independent advisers, outlining the nature of particular risks and highlighting measures which are either in place or can be adopted to manage or mitigate those risks, will be put in place.

Further measures will ensure SDF's compliance with the continuous disclosure requirements of the Listing Rules.

5.9 Independent Professional Advice

In fulfilling their duties, each Director dealing with corporate governance and other matters may obtain independent professional advice at the expense of SDF, subject to prior approval of the Chairman, whose approval will not be unreasonably withheld.

6. Financial Information

6.1 Introduction

The Statement of Financial Position as at 31 December 2001, the Statement of Financial Performance for the year ended 30 June 2001, for the six months ended 31 December 2001 and for the six months ended 30 June 2002 and the Statement of Cash Flows for the six months ended 31 December 2001, of SDF have been prepared in accordance with historical cost and the Corporations Act and its Regulations, Applicable Australian Accounting Standards and Urgent Issues Group Consensus Views.

PKF, Chartered Accountants, have audited SDF's financial statements for the 12 month period ended 30 June 2001, and the 6 month period ended 31 December 2001 and have issued unqualified audit opinions on them.

6.2 Statement of Financial Position

The Statement of Financial Position for the six months ended as at 31 December 2001, presented below, is extracted from the audited financial statements of SDF.

Since incorporation to 31 December 2001, SDF has undertaken the following material matters which have affected its Statement of Financial Position:

- raised \$204,000 via the issue of 1,004,000 fully paid ordinary shares;
- invested \$200,000 in ARA;
- incurred \$145,131 of costs associated with undertaking due diligence investigations on potential investments and capital raising costs in relation to the preparation and issue of this Prospectus;
- of the costs incurred above, \$80,000 of legal fees has been written off in relation to potential investments not proceeded with and \$65,131 has been capitalised in relation to the preparation and issue of this Prospectus. These capitalised costs will be written off to the contributed equity account upon completion of this proposed capital raising;
- has sustained its operations via a \$65,030 loan from Rhys Securities Pty Ltd, a related company of Messrs Peter King and John Nissen; and
- acquired computer equipment and software to the value of \$3,289.

To illustrate the expected financial position of SDF following the Offer of Shares under the Prospectus, the table on the following page sets out the expected Statement of Financial Position assuming a Minimum Subscription and a Maximum Subscription.

These illustrative examples also include transactions which have occurred between 1 January 2002, to the date of this Prospectus, namely a further investment in ARA of \$300,000, the issue of 1.5 million Shares to Rhys Securities Pty Ltd at 20 cents each to raise that \$300,000, the issue of 320,000 fully paid Shares to Michael McDonald in relation to legal fees rendered by McDonald and Associates a related entity of Michael McDonald at an issue price of 25 cents each in compensation for legal fees of \$80,000, further loan funding of \$80,000 from Rhys Securities Pty Ltd and the issue of \$4,496,000 fully paid ordinary Shares for no cash consideration to certain Directors of SDF in relation to their past remuneration and in relation to past and future services in respect to capital raising activities undertaken by certain Directors as set out in Section 10.6. Notwithstanding that these Shares have been issued for no cash consideration, for accounting purposes, a value of 10 cents per Share has been assigned to them.

These illustrative examples further assume:

- a further investment of \$500,000 in ARA pursuant to the ARA Option Deed;
- an initial investment in Auspep of \$1,250,000 pursuant to the Auspep Subscription Deed;
- the payment of capital raising costs of \$550,000 in respect of the Minimum Subscription and \$900,000 in respect of the Maximum Subscription; and
- the repayment of loans to Rhys Securities Pty Ltd, which at 30 June 2002 had increased to \$145,030 from \$65,030 at 31 December 2001.

	Actual 31 Dec. 2001 \$	Pro Forma	
		Min \$	Max \$
Current Assets			
Cash Assets	4,981	1,639,951	6,789,951
Capitalised Capital Raising Costs	65,131	0	0
Total Current Assets	70,112	1,639,951	6,789,951
Non Current Assets			
Property, Plant and Equipment	3,289	3,289	3,289
Other Financial Assets accounted for under the Equity Method	200,000	2,250,000	2,250,000
Total Non Current Assets	203,289	2,253,289	2,253,289
Total Assets	273,401	3,893,240	9,043,240
Current Liabilities			
Payables	145,131	0	0
Non Interest Bearing Liabilities	65,030	0	0
Total Current Liabilities	210,161	0	0
Total Liabilities	210,161	0	0
Net Assets	63,240	3,893,240	9,043,240
Equity			
Contributed Equity	204,000	4,264,400	9,414,400
Accumulated Losses	-140,760	-371,160	-371,160
Total Shareholders' Equity	63,240	3,893,240	9,043,240

6.3 Statement of Financial Performance

The Statement of Financial Performance for the six months ended 31 December 2001, and for the year ended 30 June 2001, presented below is extracted from the audited financial statements of SDF. The Statement of Financial Performance for the six months ended 30 June 2002, is unaudited and extracted from SDF's internal management accounts.

SDF, since incorporation to 30 June 2002, has undertaken limited activities in relation to its stated objectives. The financial consequences of these activities have resulted in SDF reporting losses after income tax of \$222,061 for this period. SDF has earned no income for this period and the majority of its expenditures relates to remuneration expenses of its only employee, namely its chief executive officer and legal fees in relation to due diligence investigations conducted on proposed investments not proceeded with of \$80,000.

	30 June 2001 Full Year Results (\$)	31 December 2001 Half Year Results (\$)	30 June 2002 Half Year Results (\$)
Revenue	0	0	0
Expenses			
Employee Remuneration Costs	0	50,447	71,593
Legal Fees	0	80,000	0
Other	3,883	5,825	10,313
Loss from Ordinary Activities	-3883	-136,272	-81,906
Income Tax Expense Relating to Ordinary Activities	0	0	0
Net Loss	-3883	-136,272	-81,906

6.4 Statement of Cash Flows

The Statement of Cash Flows for the six months ended 31 December 2001, presented below, is extracted from the audited financial statements of SDF.

SDF has sustained its investing and operating activities through the raising of equity capital of \$204,000 and the provision of loan funding of \$65,030 for the period from incorporation to 31 December 2001.

To illustrate the expected cash flow position of SDF following the Offer of Shares under the Prospectus, the table below sets out the expected Statement of Cash Flow Position on the assumption that the Minimum Subscription and Maximum Subscription respectively have been achieved.

The illustrative examples also include transactions which have occurred between 1 January 2002 to the date of this Prospectus, namely a further investment in ARA of \$300,000, the issue of 1.5 million Shares to Rhys Securities Pty Ltd at 20 cents each to raise \$300,000 and further loan funding of \$80,000 from Rhys Securities Pty Ltd.

This illustrative position further assumes:

- a further \$500,000 investment in ARA pursuant to the ARA Option Deed;
- an initial investment in Auspep of \$1,250,000 pursuant to the Auspep Subscription Deed;
- the payment of capital raising costs of \$550,000 in respect of the Minimum Subscription and \$900,000 in respect of the Maximum Subscription; and
- the repayment of loans to Rhys Securities Pty Ltd which up to 30 June 2002 had increased to \$145,030 from \$65,030 at 31 December 2001.

	Actual 31 Dec. 2001	Proforma	
	\$	Min \$	Max \$
Cash Flows from Operating Activities			
Payments to Suppliers and Employees	-56,876	-56,876	-56,876
Net Cash used in Operating Activities	-56,876	-56,876	-56,876
Cash Flows from Investing Activities			
Payment for Investments	-200,000	-2,250,000	-2,250,000
Payment for Plant and Equipment	-3,289	-3,289	-3,289
Net Cash used in Investing Activities	-203,289	-2,253,289	-2,253,289
Cash Flows from Financing Activities			
Proceeds from Share Issues	200,000	4,500,000	10,000,000
Proceeds from Borrowings	65,030	145,030	145,030
Repayment of Borrowings	0	-145,030	-145,030
Payment of Capital Raising Costs	0	-550,000	-900,000
Net Cash used in Financing Activities	265,030	3,950,000	9,100,000
Net Increase/Decrease in Cash held	4,865	1,639,835	6,789,835
Cash at the beginning of the Financial Period	116	116	116
Cash at the end of the Financial Period	4981	1,639,951	6,789,951

6.5 Principal Accounting Policies

A summary of the principal accounting policies adopted by SDF is set out below.

(a) Basis of Accounting

The financial statements have been drawn up in accordance with the Corporations Act Regulations, applicable Australian Accounting Standards and Urgent Issues Group Consensus Views.

The financial statements have been prepared in accordance with the historical cost basis and do not take into account changes in either the general purchasing power of the dollar or the valuation of assets.

(b) Basis of Consideration

Where SDF has subsidiaries, they will be accounted for by the purchase method of accounting. The financial statements of subsidiaries will be prepared for the same reporting period as SDF, using consistent accounting policies. Subsidiaries will adopt the same accounting policies as SDF to the extent appropriate.

Information from the financial statements of subsidiaries will be from the date that SDF obtained control until such time as control ceases. Where there is a loss of control of a subsidiary, the consolidated financial statements will include the results for the part of the reporting period during which SDF had control.

SDF and its controlled entities together will be referred to as the economic entity. The effects of all transactions between entities in the economic entity will be eliminated in full.

(c) Income Tax

Income tax has been brought to account using the principles of tax effect accounting whereby income tax expense is calculated on the accounting profit/loss after adjusting for items which, as a result of their treatment under income tax legislation, create permanent differences between the accounting profit/loss and the taxable income/loss. The tax effect of timing differences which arises from the recognition in the accounts of items of revenue and expenses in years different from those in which they are assessable or allowable for income tax purposes, are represented in the balance sheet as future income tax benefits or provision for deferred income tax, as the case may be at current tax rates. A future income tax benefit is only carried forward as an asset where realisation of the benefit can be regarded as being assured beyond reasonable doubt. As SDF is a PDF, it is taxed at a

concessional rate of 15% on PDF activities and 25% on non PDF activities.

(d) Investments

Current investments will be valued to market and any unrealised profit or loss will be brought to account in the Statement of Financial Performance in the relevant year.

Investments that are classified as non-current are held for long term investment purposes. These investments will be valued at current market value and any increment in their value will be taken to the asset revaluation reserve. Decrements that reverse previous increments will be taken to the asset revaluation reserve, otherwise they will be charged to the Statement of Financial Performance. The potential effect of any taxation will be taken into account in relation to an increment taken to the asset revaluation reserve.

Where SDF has an investment in associates they will be accounted for using the equity method in the financial report of SDF. Associates comprise entities over which SDF has significant influence and holds an ownership interest. Under the equity method of accounting:

- the carrying amounts of investments in associates are increased or decreased to recognise SDF's share of the post-acquisition profits or losses and other changes in net assets of the associates; and
- SDF's share of the post-acquisition profits or losses of associates is included in the Statement of Financial Performance.

(e) Capitalised Capital Raising Costs

Capitalised capital raising costs associated with the share issue and costs associated with the capital raising will be written off against contributed equity once the proposed capital raising is completed.

(f) Property Plant and Equipment

Items of property, plant and equipment comprising a class of non-current assets are carried at cost. The carrying amounts of non current assets are reviewed to determine whether they are in excess of their recoverable amount at balance date. In determining recoverable amounts, the expected net cash flows have not been discounted to their present value.

Items of property, plant and equipment are depreciated using the straight-line method over their estimated useful lives from the date of their acquisition. The depreciation rate used for property, plant and equipment is 33%.

7. Risk Factors

The Directors, SDF and any person associated with SDF does not guarantee the performance of SDF, the performance of the Shares offered under this Prospectus or the market price at which the Shares will trade. Also, they are not aware of individual investors' risk profiles and investment criteria.

The business activities of SDF are subject to risks and there are many factors which may impact the future performance of SDF. These risks should be considered carefully by investors before making a decision to apply for Shares as they may adversely affect the value of SDF's assets and Shares. Some of these risks can be mitigated by the use of safeguards and appropriate systems and actions, but some are outside the control of SDF and cannot be mitigated.

The principal risks include, but are not limited to, those detailed below. Prior to making an investment decision, prospective investors should also consider the following risk factors, as well as the other information in this Prospectus.

7.1 Share Price Variations

The Shares are to be listed on ASX, where their price may rise or fall in relation to the Offer Price. The Shares issued under this Prospectus carry no guarantee in respect of profitability, dividends, return of capital, or the price at which they may trade on ASX. The value of the Shares will be determined by the stock market and will be subject to a range of factors beyond the control of SDF, and the Directors and officers of SDF. Such factors include, but are not limited to, the demand for and availability of Shares, movements in domestic interest rates, exchange rates, fluctuations in the Australian and international stock markets and general domestic and economic activity. Returns from an investment in these Shares may also depend on general stock market conditions as well as the performance of SDF. There can be no guarantee that an active market in the Shares will develop or that the market price of the Shares will not decline below the Offer Price.

7.2 Economic Factors

Changes in economic conditions or government policies in Australia or internationally may impact the fundamentals upon which the projected growth of SDF's investee companies or costs structures and profitability will rely. Adverse changes are outside the control of SDF and may result in material adverse impacts on the business or its operating results.

7.3 Currency Movements

Foreign exchange currency movements may have an adverse effect upon the financial position of SDF and its current and future investee companies.

7.4 Regulatory Risk

Changes in relevant taxes (including the GST), legal and administrative regimes and government policies both in Australia and overseas may adversely affect the financial performance of SDF. SDF will be taxed in Australia as a public company and further changes to the PDF and general taxation regime could have an effect on SDF's financial results.

Furthermore, because SDF is a PDF which invests in companies in various industries, SDF is subject to the regulatory risk faced by such investees. For example, it is unknown whether future proposals by ARA to make investments in further regional airports may be prevented or restricted by the actions or policies of regulatory authorities.

7.5 Dependence on Key Personnel

SDF is reliant on its Chief Executive Officer, Dr Robert Payne, and its Board. Loss of such personnel may have a materially adverse impact on the performance of SDF. While there can be no assurance given as to the continued availability of such personnel, SDF has an employment contract with its CEO.

7.6 Acquisitions, Joint Ventures and Shareholder Dilution

SDF will be undertaking strategic acquisitions and joint ventures as one of its growth strategies. SDF intends to pursue strategic acquisitions of companies that complement its existing business. There can be no assurance that SDF will be able to successfully identify and acquire such companies.

SDF may seek to raise additional capital, in order to fund acquisitions, or for other purposes, by new issues of Shares. This would also have the effect of diluting the shareholdings of existing Shareholders.

Subject to relevant agreements, SDF cannot control the actions of joint venturers, and therefore, cannot guarantee that joint ventures will be operated or managed in accordance with SDF's preferred direction or strategy. In particular, ARA has a minority interest in BAC as does SDF in Auspep, and this reduces the ability of ARA and SDF to significantly influence BAC and Auspep respectively.

7.7 The Investment Strategy

SDF's investment strategy is to inject patient equity capital in small to medium-sized Australian enterprises that conduct eligible businesses. This generally means that at the time of investment by SDF, targeted

businesses will generally not have realised their potential and be less financially secure than larger or listed companies.

There is also no guarantee that SDF will be able to meet its investment strategy by reaching agreement with a suitable number of quality small to medium-sized enterprises.

SDF has entered into agreements with Auspep and ARA. However, these agreements are subject to a number of conditions to completion.

The exercise of each agreement is subject to further due diligence being conducted by SDF on the investee company. The due diligence program will include an assessment of factors such as the investee company's scope for potential growth, marketability of the technology or product, intellectual property protection, strength in a particular market niche and an appropriate management team.

As a result of the due diligence, or for unforeseen reasons, SDF may choose not to proceed with the investment in Auspep and may not take up further equity in ARA. SDF may also be limited in its ability to further invest in these investee companies because of the amount of capital raised under this Offer.

7.8 Investee Companies

There are a number of risks that are specific to investee companies in which SDF has invested or may in the future invest:

- the investee company may suffer a loss of experienced staff;
- the investee company may not receive sufficient funding to carry out its business plan or objectives;
- the investee company may not achieve market acceptance of its products and/or services;
- the investee company's customer base may reduce in quality and size;
- there are inherent risks associated with investing in an investee company which has been recently established, and which does not have a long history of trading results;
- foreign exchange currency movements may have an adverse effect upon the financial performance of the investee company; and
- interest rate movements could adversely affect the profitability of an investee company.

ARA and Auspep

There are specific risks associated with the investment and proposed further investment in ARA, and the proposed investment in Auspep as follows:

ARA

- ARA may not be able to acquire interests in, or management rights to, any additional regional airports;
- disasters such as the September 11 terrorist attack could have a negative effect on the aviation industry and hence the business of regional airports;
- while AOS has taken out key-man insurance in respect of Rod Sullivan, ARA may lose the management and advisory expertise of AOS and Rod Sullivan; and
- difficulties between the BAC joint venturers may adversely affect BAC.

Auspep

- Auspep may not achieve GMP approval, and therefore its products may not receive TGA, CEMark or FDA approval; and
- Auspep may not be able to successfully continue to expand into major overseas markets.

8. Pooled Development Fund

8.1 The PDF Act

PDFs are regulated under the PDF Act. SDF was registered as a PDF on 23 August 2000. The requirements of the PDF Act are summarised below.

8.2 Making Investments

A PDF may make an investment by subscribing for new ordinary shares in an investee company. An acquisition of pre-owned ordinary shares or other kinds of shares requires PDF Board approval.

Provided that the PDF holds at least 10% of the total of all amounts paid in the issued shares in an investee company, a PDF may also acquire non-transferable options to buy shares in an investee company and lend money to an investee company, provided that the total amount of the outstanding loans by the PDF does not exceed 20% of the shareholders' funds of the PDF.

8.3 Intended Use by Investee Company of Money Invested by PDF

A PDF must believe, on reasonable grounds, that:

- (a) the shares issued or allotted to the PDF are being raised for the sole or principal purpose of raising money;
- (b) the money paid as consideration for the option concerned is being raised solely or principally; or
- (c) the loan money concerned is being borrowed solely or principally,

for use in establishing an eligible business carried on or to be carried on by the investee company, substantially expanding the production capacity or the capacity to supply services of an established eligible business, or substantially expanding existing markets or developing substantial new markets for goods or services supplied in the course of an established eligible business.

The investee company's primary activity must not be an excluded activity, that is, retail sale operations or acquisitions, disposals or development of land unless that dealing in land is incidental to its eligible activities.

8.4 Limit on the Size of Investee Company

If a PDF does not already hold other shares in the investee company, a PDF may only invest in an investee company where the total value of the investee company's assets do not exceed \$50 million.

8.5 PDF is not to commit more than 30% of its Committed Capital to an Investee Company

The total amount invested in and/or lent to an investee company is not to exceed 30% of the PDF's committed capital, unless otherwise approved by the PDF Board.

In this regard, SDF has obtained dispensation from the PDF Board permitting its current investment in ARA.

The restrictions placed on SDF under the PDF Act may affect the performance of SDF. Also, the PDF Board has the power to revoke the registration of a company as a PDF in certain circumstances.

8.6 Amount Invested in Investee Company to be at least 10% of its Paid Up Capital

To ensure significant investment in the investee company, the total amount paid on the shares in the investee company held by the PDF must be at least 10% of the total of all amounts paid on the issued shares in the investee company, unless otherwise approved.

The PDF Board has granted approval to allow SDF to make an investment of less than 10% of the total of all amounts paid on the shares in an investee company (without having to obtain prior approval of the PDF Board in each case) where SDF:

- (a) co-invests with another PDF and the amounts invested will be at least 10% of all amounts paid on the shares in the investee company;
- (b) is the underwriter or sub-underwriter and its commitment is at least 10% of the total of all amounts paid on the shares in the investee company; or
- (c) invests at least \$500,000 in the investee company.

8.7 PDF to carry on a business of making and holding PDF Investments

A PDF must carry on the business of making and holding PDF investments and must not enter into a transaction except in the course of, or for the purposes of, carrying on a business of making and holding PDF investments, or with the PDF Board's approval.

Various restrictions are placed on a PDF in relation to raising money including a prohibition on borrowing money except permitted short term borrowings as defined in the PDF Act.

8.8 Limit on Shareholding in a PDF

To ensure a spread of investors, unless the PDF Board otherwise approves, a person together with associates of the person (not being a bank, life insurance entity, or a widely held complying superannuation fund) must not hold more than 30% of the issued shares in a PDF.

Pursuant to section 31(1) of the PDF Act, the PDF Board has approved Peter King, John Nissen and Michael McDonald, as associates, holding more than 30% of the issued shares in SDF until 23 October 2002.

8.9 Timetable for investing funds raised by PDF

A PDF must invest 65% of the total of the amounts that become due and payable to a PDF in respect of an issue or allotment of shares in the PDF, such as under this Prospectus or a call made in respect of such shares, within the investment period specified in the PDF Act which, at the date of this Prospectus, is 5 years.

8.10 PDF may merge

Subject to the requirements in the PDF Act, a PDF may only acquire shares in another PDF where that is part of the two PDFs merging and provided that no cash consideration is paid to the shareholders as part of the merger, other than as a bona fide dividend.

8.11 Notification of Investments and Annual Return

Within 30 days of a PDF investing in a particular investee company for the first time, the PDF must give the PDF Board written notification of the investment.

A PDF must also, within 4 months after the end of the financial year, give the PDF Board a written return that includes information such as details of officers, persons providing services, shareholders, particulars of investments held by the PDF, profits, gains and losses made from each investee company and dividends paid to shareholders during the financial year.

8.12 Company to Notify its Shareholders if it ceases to be a PDF

As soon as practicable after a company becomes aware that it has ceased to be a PDF, it must notify each of its shareholders in writing.



9. Independent Taxation Report

1 August 2002

The Directors
State Development Fund Limited
Level 54 Rialto Building
525 Collins Street
MELBOURNE VIC 3000

Dear Sirs,

INDEPENDENT TAXATION REPORT

1 Background

This report has been prepared at the request of the Directors of State Development Fund Limited ("State Development") for inclusion in a Prospectus to be dated 1 August 2002 ("Prospectus"), under which investors will be invited to subscribe for up to 38 million ordinary fully paid shares at an issue price of \$0.25 in State Development to raise \$9.5 million as a maximum subscription. The minimum subscription will be \$4 million, comprising 16 million ordinary fully paid shares at an issue price of \$0.25 each.

State Development was incorporated as a public company limited by shares on 5 July 2000. It was then registered with effect from 23 August 2000 under the Pooled Development Funds Act 1992 (Cth) (as amended), ("the PDF Act") as a Pooled Development Fund ("PDF").

The purpose of this report is to assist investors and their professional advisers to make an informed assessment of the taxation consequences attributable to an investment in State Development.

Our opinion, as set out below, is based on our interpretation of the relevant provisions of the Income Tax Assessment Act 1936 (Cth) (as amended), the Income Tax Assessment Act 1997 (Cth) [as amended] (collectively "the Tax Acts") and the PDF Act as at the date of this report.

2 Assumptions

This report is based upon the following assumptions:

- State Development remains registered as a PDF under the PDF Act;
- State Development is treated as a public company for taxation purposes;
- there are no changes to the Tax Acts or the PDF Act as they currently apply to PDFs generally or to State Development in particular; and
- State Development achieves at least its minimum subscription.

3 Taxation Treatment of State Development

PDF companies use the identical basis for the calculation of taxable income as other companies, however, concessionary rates of tax are applied to the components of their taxable income.

(a) Calculation of a PDF Company's Taxable Income

A PDF company's taxable income is divided into two components:

- the SME (small and medium size enterprises) component. This comprises assessable income from dividends and the assessable income/capital gains from the disposal of SME investments, less allowable deductions/capital losses. This component is currently taxed at the rate of 15 per cent; and
- the unregulated investment income component. This includes any income that is not SME income, typically interest on bank or money market deposits. This component is currently taxed at the rate of 25 per cent.

In calculating the taxable income of a PDF, all deductible expenditure available to a PDF must firstly be offset against SME income. The balance of deductible expenditure is then offset against the unregulated investment income component of the PDF company's taxable income.

(b) Dividend Rebates and Franking Implications

As a public company, for taxation purposes, State Development will be able to claim the inter-corporate dividend rebate in respect of franked dividends received from its SME investments at the rate applicable to the SME income component, being 15 per cent. As such, franked dividends are effectively tax free.

Dividend franking applies equally to a PDF as it does to other companies. The main sources of credits to a PDF's franking account are from the payment of tax and the receipt of franked dividends. Despite a PDF paying tax at concessionary rates, the payment of tax by a PDF will result in a franking credit calculated on the basis of the general company tax rate, 30 per cent for the 2003 income year. A franked dividend received by a PDF company gives rise to a class C franking credit, at the current tax rate of 30 per cent for the 2003 income year.

In terms of events which will reduce the franking account balance, the first dividend of a franking period may be franked to the extent desired, as provided for under new provisions as part of the new Simplified Imputation System which has effect from 1 July 2002. The extent of franking of the dividend will give a consequent reduction in the franking account. Under these new rules there is now a requirement that all frankable dividends be franked to the same extent during each franking period (called the benchmark franking rule).

(c) Losses of a PDF Company

Tax losses of a PDF company may be carried forward and applied against future taxable income provided the PDF status is maintained. They are required to be offset in a year of income, firstly against SME income, with the balance, if any, against unregulated investment income. A restriction is that both revenue and capital losses of a PDF are essentially quarantined and can only be recouped against income and capital gains respectively derived while a PDF. Broadly, apart from these special rules, losses incurred by PDFs are deductible on the same basis as losses incurred by other corporate taxpayers.

4 Taxation Treatment of State Development's Shareholders

There are a number of taxation concessions that apply to income derived by shareholders in PDF companies and upon the disposal of PDF shares.

(a) Assessment of Dividends from a PDF Company

Franked and unfranked dividends paid by a PDF company are tax exempt in the shareholder's hands. However, PDF shareholders may elect to treat the franked portion of a PDF dividend as assessable income, in which case, it is treated in the same manner as an ordinary franked dividend. The following summarises this treatment for the various types of shareholders:

- Individual or superannuation shareholder – an election will require the shareholder to include the grossed up amount of the dividend in assessable income, with a rebate to be claimed for the imputation credits which attach to the dividend.
- Distribution through partnerships or trusts – the election to treat the dividend as assessable income is exercisable by the taxpayer who ultimately receives the franked dividend. The taxation implication will then depend on the tax status of the partner or beneficiary.
- Corporate shareholders – may elect to treat a franked dividend as assessable, in which case, they will gross up the franked dividend (under the provisions of the new Simplified Imputation System) and claim an inter-corporate dividend rebate to the extent of the franking credits. Franking credits will pass to the corporate shareholders irrespective of whether it so elects to include the PDF dividend in its assessable income.
- Non-resident shareholders will not be subject to Australian withholding tax regardless of whether the dividend is franked or not.
- Other taxpayers can elect to treat the dividend as assessable income and as a result are able to claim the respective imputation credit.

(b) Circumstances Where a Shareholder Would Elect to be Assessed

It may be beneficial for certain shareholders to elect to be assessed on franked PDF dividends. These circumstances include where the shareholder:

- has a marginal tax rate less than the company tax rate;
- will recoup tax losses in the year of income but has insufficient losses to offset the full taxable income. The shareholder can thereby utilise the imputation credits or obtain a refund of imputation credits; or

has deductions available in relation to the acquisition of the PDF share that will be able to offset the franked PDF dividend.

Due to the dividend rebate available to corporate shareholders, where a corporate shareholder has incurred expenditure relating to their shares in the PDF and has other income that creates a taxation liability, an election in most instances would be made to include the dividend as assessable.

It is unclear from the taxation law as to the degree interest and associated borrowing costs on loans to acquire shares in a PDF are deductible. Generally, expenditure incurred to produce exempt income is non-deductible for income tax purposes.

Where the shareholder has elected that the franked amount of PDF dividends paid during a particular year of income are to be assessable, the income will not be exempt and accordingly interest and associated borrowing costs incurred in the particular year of income will be allowable deductions. It is our opinion that where a dividend paid is partly franked, with the shareholder electing to be assessed on the franked portion, the expenditure would be required to be apportioned as to the deductibility based on the assessable (franked dividend) and exempt (unfranked dividend) components. Due to the uncertainty of the availability and extent of deductions for borrowing to acquire PDF shares, potential investors incurring such expenditure should seek individual professional taxation advice. This may involve a private ruling request to the Australian Taxation Office.

(c) Retention and Disposal of PDF Shares

If any shares in State Development are sold and a profit is derived, whether as income or capital gain, that amount will be exempt from tax in the shareholder's hands. Conversely, any losses arising from the disposal of PDF shares cannot be offset against other income or capital gains.

The Tax Acts specifically provide that shares in a PDF are not trading stock. Therefore, share traders cannot include shares in State Development as trading stock for income tax purposes.

If PDF shares are held by unit trusts, distributions by the trustee of exempt PDF dividends or exempt gains from the disposal of PDF shares, will not cause a reduction in the cost base of the units which are held in the trust.

(d) Venture Capital Franked Dividends

Certain resident entities such as complying superannuation funds (excluding self managed funds), complying approved deposit funds, pooled superannuation trusts and life insurance companies that invest in PDFs are able to receive venture capital franking rebates. This regime was introduced to encourage eligible entities to invest in PDFs since it enabled these entities to effectively receive gains on venture capital investments through PDFs tax-free. The PDF maintains a separate venture capital account in its class C franking account to which it may raise venture capital credits in respect of tax payments that relate to CGT events relating to qualifying SME investments of the PDF. Venture capital franked dividends can be paid from this account to the extent permitted.

Eligible entities that receive a venture capital franked dividend are able to benefit from the rebate whilst the venture capital franked portion of the dividend is treated as exempt income. As a result, the venture capital gains are effectively exempt from tax. Non-eligible investors simply ignore the venture capital franking.

5 Note to Intending Investors

The foregoing is of a general nature and intending subscribers/investors should be aware that the ultimate interpretation of taxation laws in Australia rests with the Courts, and that such laws, which may affect the advice contained in this report, may become subject to amendment (at any time) as a result of new decisions handed down by the Courts and/or legislative amendment.

Yours faithfully,



S M McKay
Partner

10. Additional Information

10.1 Registration

SDF was registered in Victoria on 5 July 2000 as a public company.

10.2 Company Tax Status

SDF will be taxed in Australia as a public company.

10.3 Share Capital

At the date of this Prospectus, the number of fully paid Shares is 7,320,000.

10.4 Rights Attaching to Shares

There is only one class of shares in SDF, fully paid ordinary shares.

The rights attaching to Shares are:

- (a) set out in the Constitution of SDF; and
- (b) in certain circumstances, regulated by the Corporations Act, the Listing Rules, the SCH Business Rules, the PDF Act and the general law.

The principal rights, liabilities and obligations of the Shareholders are summarised below.

Voting

At a general meeting, every member present in person or by proxy, attorney or representative has one vote on a show of hands and one vote on a poll for each fully paid share held (with adjusted voting rights for partly paid shares). Voting at any meeting of Shareholders is by a show of hands unless a poll is demanded. A poll may be demanded by at least 5 Shareholders entitled to vote on the resolution, Shareholders with at least 5% per cent of the votes that may be cast on the resolution of the poll, or the chairperson. The chairperson has a casting vote on a show of hands or on a poll.

Dividends

The profits of SDF, which the Directors may from time to time determine to distribute by way of dividend, are divisible amongst the members in proportion to the number of shares held by them, subject to the rights attaching to the shares with special dividend rights. No shares with special dividend rights are currently on issue.

Issue of further Shares

The Directors may (subject to the restrictions on the issue of shares imposed by the Constitution, the Listing Rules, the PDF Act and the Corporations Act) issue, grant options in respect of, or otherwise dispose of

further shares on terms and conditions (including preferential, deferred or special rights, privileges or conditions, or restrictions) as they see fit.

Variation of class rights

The procedure set out in sub-section 246B(2) of the Corporations Act must be followed for any variation of rights attached to the shares. Under that sub-section, with the consent in writing of the holders of at least three quarters of the issued shares in the particular class, or the sanction of a special resolution passed at a meeting of the holders of shares in that class, the rights attached to a class of shares may be varied or abrogated. In either case, the holders of not less than ten per cent of the votes in the class of shares whose rights have been varied or abrogated may apply to a court of competent jurisdiction to exercise its discretion to set aside such variation or abrogation.

Transfer of Shares

Shareholders may transfer shares by a written transfer instrument in the usual form or by a proper transfer effected in accordance with the Business Rules of the Securities Clearing House and ASX requirements. All transfers must comply with the Constitution, the Listing Rules, the Business Rules of the Securities Clearing House and the Corporations Act. The Directors may refuse to register a transfer of shares in circumstances permitted by the Listing Rules or ASX. The Directors must refuse to register a transfer of shares where required to do so by the Listing Rules.

General meeting and notices

Each Shareholder is entitled to receive notice of, attend and vote at general meetings of SDF and to receive all notices, accounts and other documents required to be sent to Shareholders under the Constitution of SDF or the Corporations Act.

Winding up

Subject to any special resolution or preferential rights attaching to any class or classes of shares, members will be entitled on a winding up to a share in any surplus assets of SDF in proportion to the shares held by them, less any amounts which remain unpaid on those shares at the time of distribution.

Proportional takeover provisions

The Constitution of SDF contains provisions for Shareholder approval in relation to any proportional takeover scheme. The provision will lapse unless

renewed by a special resolution of Shareholders in general meeting three years from the date of its adoption.

Directors

The minimum number of Directors is 3 and the maximum is fixed by the Directors but may not be more than 12 unless the Shareholders of SDF pass a resolution varying that number. Directors are elected at annual general meetings of SDF. Retirement will occur on a rotational basis so that one third of the Directors plus any Director who has held office for 3 or more years or 3 or more annual general meetings retire at each annual general meeting of SDF. The Directors may also appoint a Director to fill a casual vacancy on the Board or in addition to the existing Directors, who will then hold office until the next annual general meeting of SDF. Questions arising at a meeting of Directors will be decided by a majority of votes of the Directors present at the meeting and entitled to vote on the matter. In the case of a tied vote, the chairman of the Board has a second or casting vote, unless there are only two Directors present or qualified to vote, in which case the proposed resolution is taken as having been lost.

Officers indemnity

SDF, to the extent permitted by law, indemnifies each officer of SDF on a full indemnity basis against any liability (including costs and expenses) incurred by the person as an officer of SDF or a related body corporate of SDF.

Amendment

The Constitution may be amended only by a special resolution passed by at least three quarters of the votes cast by Shareholders entitled to vote on the resolution. At least 28 days written notice specifying the intention to propose the resolution must be given.

10.5 Material Contracts

The Directors consider that there are a number of contracts which are significant or material to SDF or of such a nature that an investor may wish to have particulars of them when making an assessment of whether to apply for Shares. The main provisions of each such contract is summarised below. These summaries do not purport to be complete and are qualified in their entirety by reference to the text of the contracts themselves.

(a) ARA Arrangements

(1) ARA Joint Venture Agreement

The shareholders in ARA have entered into a joint venture agreement dated 30 July 2002 governing the relationship between them as shareholders in ARA. The joint venture agreement contains provisions which are standard in an agreement of this nature, including:

- SDF is currently entitled to appoint 2 of the 5 directors of ARA;
- if the ARA Option Deed is exercised, SDF will be entitled to appoint a majority of the Board of Directors;
- SDF is entitled to appoint the Chairman and Managing Director of the Board of Directors;
- a quorum for a meeting of Directors is 3 Directors of which prior to the exercise of the ARA Option Deed at least one of whom must be appointed by SDF and after the exercise of the ARA Option Deed at least two of whom must be directors appointed by SDF;
- each Director is entitled to one vote, and each shareholder is entitled to one vote, for each share held;
- the quorum for a meeting of shareholders is a meeting at which all shareholders are present;
- certain decisions (such as business decisions which are non-arms length or not in the ordinary course of business) require unanimous approval of the Board and other decisions (such as amendments to the constitution and other fundamental corporate changes to operations) require unanimous shareholder approval;
- the funding requirements of ARA will either be funded by shareholders (on a pro rata basis to their shareholdings) or by third party debt;
- there are restrictions on shareholders dealing with their shares;
- there is a pre-emptive rights procedure which requires each shareholder to offer their shares to the other shareholders before being able to transfer them to a third party;

- the Board will declare dividends to the extent the Board considers it appropriate to do so having regard to the profitability, cash flow and capital requirements of ARA;
- AOS has agreed not to compete in certain respects with the business of ARA for so long as it remains a shareholder in ARA and for 12 months after it ceases to be a shareholder in ARA;
- the shareholders' agreement contains dispute resolution provisions including forced sale and purchase requirements where there is an irreconcilable dispute;
- a shareholder will cease to be a party to the shareholders' agreement and must offer its shares to the other shareholders at a value which is at a discount to their market value if it commits a material breach of the shareholders' agreement which is not remedied within 30 days after notice of that breach, or if it becomes the subject of an insolvency event;
- the shareholders' agreement will remain in force until it is terminated by mutual agreement of the shareholders or until there is only one shareholder in ARA; and
- the agreement is governed by Victorian law.

(2) ARA Option Deed

SDF has entered into an option deed with ARA dated 30 July 2002. Under this deed, ARA granted to SDF an option expiring on the date which is 6 months after the date of the ARA Option Date (ARA Option Expiry Date) to subscribe for a further shareholding in ARA of 12.01% or 22% for \$273,000 or \$500,000 respectively at the discretion of SDF, subject to SDF being satisfied with the results of due diligence investigations into ARA to be conducted by SDF and its advisers.

The parties agree that SDF will conduct due diligence into the financial, accounting, legal and other aspects of ARA in relation to ascertaining the viability of a further investment in ARA prior to the ARA Option Expiry Date. The parties agree to act in good faith and in a spirit of co-operation towards achieving this objective.

SDF may elect to exercise the option to invest by giving written notice to ARA, otherwise the option shall expire on the ARA Option Expiry Date.

The exercise of the option is subject to all required approvals being granted, including any

approvals from SDF's shareholders required under the Corporations Act or the Listing Rules.

ARA agrees that it will not deal with any of its issued shares, options or other securities or offer or issue new shares or grant options or other securities to any person other than SDF and generally carry on its business in the ordinary course up to the ARA Option Expiry Date.

The parties acknowledge that any investment by SDF in ARA will constitute the giving of a financial benefit to a related party of SDF, as Mr Michael McDonald, Mr Peter King, and Mr John Nissen are directors and shareholders of both ARA and SDF, and accordingly any investment will be decided by members of the Board who have no material interest in ARA, based on independent advice.

As the financial benefit is reasonable in the circumstances given that SDF and these related parties are dealing at arm's length, it is not proposed to obtain approval of members of SDF in respect of the exercise of the ARA Option Deed.

(3) AOS Consultancy Agreement

ARA has entered into a consultancy agreement dated 1 September 2001 with AOS which has the following principal terms:

- unless terminated earlier, the agreement has a term of 3 years commencing from 1 September 2001 and it continues after that period unless terminated by either party on one month's notice;
- under the agreement, AOS is required to provide to ARA aviation related advice and services with respect to the acquisition and management of regional airports in Australia and elsewhere, at consultancy fees to be agreed between the parties;
- ARA may immediately terminate the agreement if AOS is charged with a criminal offence or does not remedy a breach of the agreement after one month's notice of the breach. AOS may terminate the agreement if ARA fails to pay consultancy fees or expenditures in respect of which AOS is entitled to be reimbursed;
- either party may terminate the agreement if the other becomes insolvent; and
- the agreement is governed by the laws of Victoria.

(b) BAC Arrangements

(1) BAC Unitholders and Shareholders Agreement

- ARA, Burnie City Council and BAC (as trustee of the Burnie Airport Corporation Unit Trust) have entered into a Unitholders and Shareholders Agreement dated 14 December 2001 which in addition to terms usually contained in such agreements has the following principal terms:
- BAC is the trustee of the Burnie Airport Corporation Unit Trust and its purpose is to conduct and develop the Burnie Airport and its business;
- further financial requirements of BAC are to be provided by unitholders in their proportion to their respective unitholdings (being ARA 49% and Burnie City Council 51%), or where third party debt is required, it must be guaranteed in those proportions;
- any loans to the trust must be on arm's length commercial terms but no unitholder is obliged to provide any loan;
- the management of the Airport will be conducted in accordance with the ARA Management Agreement;
- transfers of units are governed by pre-emptive rights provisions and any transferee must sign a deed of assumption in the form attached to the agreement;
- dispute resolution processes such as mediation provisions and deadlock resolution processes;
- a unitholder that fails to comply with its funding obligations is subject to default provisions such as an obligation to pay interest, a deemed offer of units to the other unitholder and loss of voting rights;
- if a unitholder suffers an insolvency event, a unit transfer notice is deemed to be issued and the transfer procedure initiated at market value;
- the agreement terminates by mutual agreement of all unitholders, on termination of the trust, if BAC ceases to operate the business or upon the winding up of BAC; and
- the agreement is governed by the laws of Tasmania.

(2) Other Constituent Documents

The conduct of BAC is also governed by:

- (A) a unit trust deed dated 14 December 2001 between ARA as the initial unit holder and BAC as the trustee; and
- (B) the constitution of BAC.

Both these constituent documents contain standard provisions commonly found in documents of this type.

(3) Burnie Wynyard Airport Sale of Business Agreement

Burnie Port Corporation Pty Ltd and Burnie City Council entered into a Burnie Airport Sale of Business Agreement in respect of the purchase of the business of the Burnie Wynyard Airport for \$1,300,000. Relevant provisions from this agreement are:

- the Burnie City Council may nominate a third party to complete the agreement (the Burnie City Council nominated BAC);
- the purchaser will continue to operate and maintain the Burnie Wynyard Airport in accordance with CASA Standards and Conditions and Civil Aviation Regulations;
- Burnie Port Corporation Pty Ltd provides detailed warranties in favour of the purchaser; and
- the agreement is governed by the laws of Tasmania.

(4) Burnie Wynyard Airport Contract for the Sale of Real Estate

Burnie Port Corporation Pty Ltd and Burnie City Council entered into a contract for the sale of real estate in relation to the acquisition of the Burnie Wynyard Airport which in addition to terms usually contained in such contracts has the following principal terms:

- the real estate subject to the contract is the property at which the Burnie Wynyard Airport is conducted;
- the purchase price is \$1,200,000;
- completion of the sale (which occurred on 1 February 2002) was interdependent with completion of the Burnie Wynyard Airport Sale of Business Agreement;
- the vendor provides warranties as to title; and
- Burnie City Council is entitled to appoint a nominee to complete the sale (it appointed BAC).

(5) ARA Management Agreement

BAC and ARA entered into a short form management agreement dated 13 December 2001 governing the first 18 months of the BAC joint venture with the intention that a further 10 year management agreement would be entered into on or about 1 July 2003. The short form management agreement has been adopted in the intervening period, with the intention that the parties be able to obtain a better understanding of operational issues and expenses and income from the joint venture before entering into a long term management agreement. Under the short term management arrangements:

- BAC will employ the single employee to be taken over from Burnie Port Corporation Pty Ltd and the new Airport Manager;
- BAC will contract with other persons for the provision of services through to 30 June 2003, including the AOS Consultancy Agreement;
- where required, BAC will enter into other agreements with third parties including contracts for the maintenance of buildings and runways and any new building works;
- ARA is engaged to manage the Airport on behalf of BAC from the date of signing the Burnie Wynyard Airport Sale of Business Agreement until 30 June 2003, to be remunerated at the rate of \$4,500 per month plus GST; and
- in accordance with their respective shareholdings in BAC, BCC shall contribute the sum of \$510,000 and ARA \$490,000 in respect of the working capital and capital requirements of BAC, payable in full by no later than 1 February 2002 (these contributions were made).

(c) Auspep Arrangements

(1) Auspep Subscription Deed

SDF has entered into a subscription deed with Auspep dated 30 July 2002 (Auspep Subscription Deed). Under this deed, Auspep has granted SDF the right to subscribe for new ordinary shares in Auspep prior to the date which 6 months after the date of the Auspep Subscription Deed (Auspep Subscription Expiry Date) sufficient to give SDF an equity interest of 30% in Auspep for \$1.25 million subject to SDF being satisfied with the results of due diligence investigations into Auspep to be conducted by SDF and its advisers.

The parties agree that SDF will conduct due diligence into the financial, accounting, legal and other aspects of Auspep in relation to ascertaining the viability of an investment in Auspep prior to the Auspep Subscription Expiry Date. The parties agree to act in good faith and in a spirit of co-operation towards achieving this objective.

At the conclusion of the due diligence program, SDF may elect to invest in Auspep by giving written notice to Auspep prior to the Auspep Subscription Expiry Date.

The investment pursuant to the Subscription Deed is subject to all required approvals being granted, including any approvals from SDF's shareholders required under the Corporations Act or the Listing Rules.

Auspep agrees that it will not deal with any of its issued shares, options or other securities or offer or issue new shares or grant options or other securities to any person other than SDF and generally carry on its business in the ordinary course up to the Auspep Subscription Expiry Date.

The parties acknowledge that any investment by SDF in Auspep will constitute the giving of a financial benefit to a related party of SDF, as Mr John Nissen is a director and shareholder of both SDF and Auspep, and accordingly any investment will be decided by members of the Board who have no material interest in Auspep, based on independent advice.

As the financial benefit is reasonable in the circumstances given that SDF and these related parties are dealing at arm's length, it is not proposed to obtain approval of members of SDF in respect of the exercise of the Auspep Subscription Deed.

(2) Auspep Joint Venture Agreement

Pursuant to the Auspep Subscription Deed, Auspep has agreed with SDF that if SDF were to invest in Auspep, the relationship between the shareholders in Auspep would be governed by a joint venture agreement in agreed form. That joint venture agreement will contain provisions which are standard in an agreement of this nature, including:

- SDF will be entitled to appoint one third of the Board of Directors;
- a quorum for a meeting of Directors is 3 Directors at least one of whom must be appointed by SDF;

- each Director is entitled to one vote and each shareholder is entitled to one vote for each share held;
- the quorum for a meeting of shareholders is a meeting at which all shareholders are present;
- certain decisions (such as business decisions which are non-arms length or not in the ordinary course of business) require unanimous approval of the Board and other decisions (such as amendments to the constitution and other fundamental corporate changes to operations) require unanimous shareholder approval;
- the funding requirements of Auspep will either be funded by shareholders (on a pro rata basis to their shareholdings) or by third party debt;
- there are restrictions on shareholders dealing with their shares;
- there is a pre-emptive rights procedure which requires each shareholder to offer their shares to the other shareholders before being able to transfer them to a third party;
- the Board will declare dividends to the extent the Board considers it appropriate to do so having regard to the profitability, cash flow and capital requirements of Auspep;
- the shareholders' agreement contains dispute resolution provisions including forced sale and purchase requirements where there is an irreconcilable dispute;
- a shareholder will cease to be a party to the shareholders' agreement and must offer its shares to the other shareholders at a value which is at a discount to their market value if it commits a material breach of the shareholders' agreement which is not remedied within 30 days after notice of that breach, or if it becomes the subject of an insolvency event;
- the shareholders' agreement will remain in force until it is terminated by mutual agreement of the shareholders or until there is only one shareholder in Auspep; and
- the agreement is governed by Victorian law.

(d) Employment Agreement of Dr Robert Payne

SDF has entered into an employment agreement with Dr Robert Payne. Under that agreement Dr Payne was employed as the Investment Manager

and has subsequently been appointed Chief Executive Officer of SDF. Subject to the closing of the Offer and admission and quotation of the Shares, the subject of the Offer, on the ASX:

- SDF will renew Dr Payne's employment contract for a further period of 3 years on the same terms; and
- Dr Payne will be entitled, subject to the conditions referred to below, to exercise the 1,000,000 options (over shares in SDF) which have been issued to him for no cash consideration.

Dr Payne is entitled to exercise one third of these options on the first anniversary of the Listing Date, another one third on the second anniversary of the Listing Date and the last third on the third anniversary of the Listing Date. The options are exercisable for 25 cents each and each option entitles Dr Payne to one Share. The options may be exercised at any time within the two year period after they become exercisable. These options will not be listed on the ASX.

Under the employment agreement, Dr Payne is paid standard remuneration plus a bonus if SDF is admitted to the Official List of the ASX. The agreement contains standard employee obligations and leave entitlements. Dr Payne is subject to standard termination clauses and is also subject to obligations of confidentiality and assignment of all intellectual property created by him during the term of his employment. Dr Payne is entitled to be appointed to the board of directors of investee companies of SDF and other companies upon obtaining the approval of the SDF board. He will be entitled to directors' fees from those companies in respect of such appointments.

(e) Sponsoring Broker Agreement

SDF has entered into a Sponsoring Broker Agreement with Challenger First Pacific Limited dated 26 July 2002.

Under this agreement, the obligations of Challenger First Pacific Limited are restricted to acting as sponsoring broker and assisting SDF to market the Offer on a best endeavours basis. Challenger First Pacific Limited may elect not to participate, at its discretion, in any particular marketing activity associated with the Offer. SDF is required to pay Challenger First Pacific Limited a retainer of \$12,500 as well as certain out of pocket expenses of Challenger First Pacific Limited. Subject to

completion of the Offer, SDF is also required to pay Challenger First Pacific Limited:

- a Sponsoring Broker fee of \$50,000; and
- a fee of 1% of moneys raised pursuant to applications bearing the Challenger First Pacific Limited stamp.

Challenger First Pacific Limited may terminate the agreement at any time with 7 days notice.

SDF provides indemnities in favour of Challenger First Pacific Limited in the agreement.

10.6 Interests of Directors, Advisers, Promoters and Others

Other than as stated in Section 10.5(e), in this Section 10.6 and elsewhere in this Prospectus:

- (a) no amount has been paid or agreed to be paid and no benefit has been given or agreed to be given to a director, or proposed director to induce them to become, or to qualify as, a director of SDF;
- (b) none of the following persons:
- a director or proposed director of SDF;
 - each person named in the Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of the Prospectus;
 - a promoter of SDF; or
 - a stockbroker to the issue of the Shares,
- holds or held at any time during the last two years an interest in:
- the formation or promotion of SDF;
 - property acquired or proposed to be acquired by SDF in connection with its formation or promotion or the Offer of the Shares; or
 - the Offer of the Shares;
- or was paid or given or agreed to be paid or given any amount or benefit for services provided by such persons in connection with the formation or promotion of SDF or the Offer of the Shares.

Interests of Directors

The Directors are not required to hold any Shares under the provisions of SDF's Constitution. The Directors may acquire Shares offered for subscription pursuant to this Prospectus.

Set out below are details of the interests of the Directors in shares in SDF immediately before the lodgement of the Prospectus with the ASIC. Interests include those held directly or otherwise.

Director or Associated Entity	No. of Shares
Rhys Securities Pty Ltd ¹	2,502,800
Mac-Law Pty Ltd ²	1,200
Peter King ³	1,498,600
John Nissen ³	1,498,600
Michael McDonald ⁴	1,818,800

Notes:

- ¹ An entity associated with Peter King and John Nissen, directors of SDF.
- ² An entity associated with Michael McDonald, a director of SDF.
- ³ These Shares have been issued to these Directors as compensation for past and future services and these Directors have not paid cash to acquire these Shares.
- ⁴ 1,498,800 of these Shares have been issued to Michael McDonald as compensation for past and future services and no cash has been paid to acquire these Shares. The other 320,000 of these Shares have been issued to Michael McDonald at 25 cents each to pay \$80,000 of legal fees.

The Constitution of SDF provides that the non-executive directors of SDF are entitled to such remuneration, as determined by the Directors which remuneration must not exceed in aggregate the maximum amount determined by SDF in general meeting. Currently it has been determined that such remuneration will not exceed \$250,000, to be apportioned among the non-executive Directors as they determine in their absolute discretion. The Directors acknowledge that as SDF grows, the demands on the Directors will increase and the Directors' fees will be increased commensurate with their responsibilities and workload, as determined by the Board and approved by the members.

Interests of Advisers

Freehills has acted as legal adviser to SDF in connection with the Offer and has performed work in relation to the due diligence enquiries on legal matters. SDF has agreed to pay \$80,000 for such services to the date of this Prospectus. Further amounts may be paid to Freehills in accordance with its time-based charge-out rates.

PKF are SDF's Auditors and Taxation Advisers. PKF has prepared the Independent Taxation Report included in this Prospectus. PKF has also performed due diligence enquiries in relation to financial

accounting and taxation matters. SDF has agreed to pay \$50,000 for such services to the date of this Prospectus. Further amounts may be paid to PKF in accordance with their time-based charge-out rates.

Unless stated otherwise, all such payments have been paid or are payable in cash. SDF is also generally obligated to pay the out-of-pocket expenses of the advisers listed above.

Brokers Fee

Where the Application Form of an Applicant who receives Shares bears the code of a member organisation of ASX, that member organisation will be paid a broker's fee of an amount equal to 3% of the total amount paid by the Applicant for Shares allotted pursuant to the Application.

10.7 Advisers' Consents and Disclaimers of Responsibility

Written consents to the issue of this Prospectus have been given and, at the time of lodgement of this Prospectus with the ASIC, had not been withdrawn by the following parties:

- Challenger First Pacific Limited has given, and not withdrawn prior to the lodgement of this Prospectus with the ASIC, its written consent to be named in this Prospectus as the Sponsoring Broker to the Offer. Challenger First Pacific Limited takes no responsibility for any part of this Prospectus other than any reference to its name.
- Freehills has given, and not withdrawn prior to the lodgement of this Prospectus with the ASIC, its written consent to be named in this Prospectus as SDF's Australian legal advisers in the form and context it is so named. Freehills takes no responsibility for any part of this Prospectus other than any reference to its name.
- PKF has given, and not withdrawn prior to the lodgement of this Prospectus with the ASIC, its written consent to be named in this Prospectus as Auditor and Tax Adviser to SDF in the form and context it is so named and has not withdrawn its consent to the inclusion in this Prospectus of its Independent Taxation Report in the form and context in which it is included. PKF takes no responsibility for any part of this Prospectus other than any reference to its name and its Independent Taxation Report.
- Computershare Registry Services Pty Ltd has given and has not withdrawn its written consent to be named as the Share Registry in the form and context in which it is named. Computershare

Registry Services Pty Ltd has not taken part in the preparation of any part of this Prospectus other than the recording of its name as Share Registry to SDF. Computershare Registry Services Pty Ltd has not authorised or caused the issue of and expressly disclaims and takes no responsibility for any part of the Prospectus.

10.8 Costs of the Offer

The expenses connected with the Offer which are payable by SDF, including sponsoring broker fees payable to the Sponsoring Broker, accounting fees, legal fees, independent expert fees, share registry fees, Prospectus design and publishing costs, ASX fees and other miscellaneous expenses are estimated to be approximately \$550,000 (if the Offer raises the Minimum Subscription) to \$900,000 (if the Offer raises the Maximum Subscription).

10.9 Litigation and Claims

So far as the Directors are aware, there is no current or threatened litigation, arbitration proceedings or administrative appeals, or criminal or governmental prosecutions of a material nature in which SDF is directly or indirectly concerned which is likely to have a material adverse effect on the business or financial position of SDF.

10.10 ASIC and ASX relief

Pursuant to Class Order 00/44 the ASIC has exempted compliance with certain provisions of the Corporations Act to allow distribution of an electronic Prospectus on the basis of a paper prospectus lodged with the ASIC and the publication of notices referring to an electronic Prospectus, subject to compliance with certain provisions.

The ASX has confirmed to SDF that:

- (a) it will not require SDF to obtain any shareholder approvals under ASX Listing Rule 10.6 or otherwise in connection with the exercise of the Auspep Subscription Deed or the ARA Option Deed;
- (b) none of the shareholdings in SDF as at the date of this Prospectus will be treated as restricted securities by ASX and, as such, they may be freely traded following the Listing Date; and
- (c) it will not treat Auspep and ARA as "classified assets" for the purposes of the Listing Rules, and, as such, SDF may pay cash to Auspep and ARA on exercise of the Auspep Subscription Deed and the ARA Option Deed.

10.11 Statement of Directors

The Directors report that after due enquiries by them, in their opinion, since the date of the financial statements in the financial information in Section 6, there have not been any circumstances that have arisen or that have materially affected or will materially affect the assets and liabilities, financial position, profits or losses or prospects of SDF, other than as disclosed in this Prospectus.

The Prospectus is authorised by each Director of SDF who consents to its lodgement with the ASIC and its issue.

Dated: 1 August 2002

Signed by:

A handwritten signature in black ink, appearing to be 'MD McDonald', written over a faint circular stamp or watermark.

Michael David McDonald

11. Glossary of Terms

In this Prospectus the following expressions have the meanings set out below:

AOS	means AOS Airport Consulting Pty Ltd (ACN 076 798 297);
Applicant	means a person applying for Shares under this Prospectus;
Application Form	means the form of application for Shares attached to this Prospectus;
Application Monies	means the Offer Price multiplied by the number of Shares applied for;
ARA	means Australian Regional Airports Pty Ltd (ACN 085 129 559);
ARA Option Deed	means the option deed described in Section 10.5(a)(2);
ARA Option Expiry Date	means the date which is 6 months after the date of the ARA Option Deed;
ASIC	means Australian Securities and Investments Commission;
ASX	means Australian Stock Exchange Limited;
Auspep	means Auspep Pty Ltd (ACN 006 673 347);
Auspep Subscription Deed	means the subscription deed described in Section 10.5(c)(1);
Auspep Subscription Expiry Date	means the date which is 6 months after the date of the Auspep Subscription Deed;
BAC	means Burnie Airport Corporation Pty Ltd (ACN 099 026 392) the trustee of the Burnie Airport Corporation Unit Trust;
Board	means the board of Directors;
Business Rules	means the SCH Business Rules and any other rules of ASX Settlement and Transfer Corporation Pty Ltd which apply while SDF is an issuer of CHESS Approved Securities, each as amended or replaced from time to time;
CEMark	means CEMark (Europe) a form of product manufacturing approval used in the European Community;
Closing Date	means the date by which Valid Applications must be received by the Share Registry being Friday, 18 October 2002 or such other date and time determined by the Board;
Constitution	means the constitution of SDF;
Corporations Act	means the Corporations Act 2001;
Date of the Prospectus	means the date on which the Prospectus was lodged with ASIC being 1 August 2002;
Directors	means the directors of SDF;
\$	means Australian dollars;
FDA	means Federal Drug Administration (USA);
GMP	means Good Manufacturing Practice;
IPO	means initial public offering;
Listing Date	means the first day on which the Shares trade on ASX, anticipated to be Tuesday, 29 October 2002;
Listing Rules	means the official listing rules of the ASX;
Maximum Subscription	means the maximum subscription that SDF will accept under the Offer, being the subscription of 38 million Shares at an issue price of 25 cents per Share to raise up to \$9.5 million;

Minimum Subscription	means the minimum subscription required by SDF for the Offer to proceed, being the subscription of 16 million Shares at an Offer Price of 25 cents per Share to raise \$4 million;
Offer	means the invitation by SDF to subscribe for Shares under the Prospectus;
Offer Price	means 25 cents per Share;
Official List	means the official list of entities that ASX has admitted and not removed;
PDF	means a pooled development fund registered under the PDF Act;
PDF Act	means the Pooled Development Funds Act 1992 (Cth) (as amended);
PDF Board	means the Pooled Development Fund Registration Board established under section 5 of the PDF Act;
Prospectus	means this document;
Share	means an ordinary share in SDF;
Shareholder	means a shareholder of SDF;
Share Registry	means Computershare Investor Services Pty Limited of Level 12, 565 Bourke Street, Melbourne, Victoria 3000;
Sponsoring Broker	means Challenger First Pacific Limited;
Sponsoring Broker Agreement	means the agreement referred to in section 10.5(e);
State Development Fund, SDF and Company	means State Development Fund Limited (ABN 96 093 639 064);
synthetic peptides	means proteins which have been synthetically or artificially altered;
Tax Act	means the Income Tax Assessment Act 1936 (Cth);
Tax Law	means Australian income tax legislation, and established interpretations of that legislation; and
TGA	means Therapeutic Goods Association (Australia).



SUPPLEMENTARY DOCUMENT

This is a supplementary document which supplements the prospectus dated 1 August 2002 (**Prospectus**) lodged by State Development Fund Limited (**Company or SDF**) relating to the offer of up to 38 million Shares (subject to a minimum subscription requirement of 16 million Shares). This document must be read together with the Prospectus. Capitalised terms which are not defined in this supplementary document have the meaning given to them in the Prospectus.

This supplementary document contains further information relating to SDF as well as Auspep and ARA (which as stated in the Prospectus are companies in which SDF may invest pursuant to the Auspep Subscription Deed and the ARA Option Deed respectively).

1. SDF Financial Information

The “\$” sign in the phrase “the issue of \$4,496,000 fully paid ordinary Shares” in section 6.2 of the Prospectus should be deleted such that that phrase reads “the issue of 4,496,000 fully paid ordinary Shares”.

The financial information detailed below has been extracted from SDF's audited financial statements for the year ended 30 June 2001, and for the six months ended 31 December 2001, and from SDF's unaudited internal management accounts for the six months ended 30 June 2002.

STATEMENTS OF FINANCIAL POSITION

	Audited 30 June 2001 \$	Audited 31 December 2001 \$	Unaudited 30 June 2002 \$
Current Assets			
Cash Assets	116	4,981	1,745
Prepayments	-	-	37,204
Capitalised Capital Raising Costs	125,373	65,131	125,913
TOTAL CURRENT ASSETS	125,489	70,112	164,862
Non Current Assets			
Property, Plant and Equipment	-	3,289	3,614
Other Financial Assets accounted for under the Equity Method	-	200,000	500,000
TOTAL NON CURRENT ASSETS	-	203,289	503,614
TOTAL ASSETS	125,489	273,401	668,476
Current Liabilities			
Payables	125,372	145,131	161,507
Non Interest Bearing Liabilities	-	65,030	145,030
TOTAL CURRENT LIABILITIES	125,372	210,161	306,537
TOTAL LIABILITIES	125,372	210,161	306,537
NET ASSETS	117	63,240	361,939
EQUITY			
Contributed Equity	4,000	204,000	584,000
Accumulated Losses	(3,883)	(140,760)	(222,061)
TOTAL SHAREHOLDERS' EQUITY	117	63,240	361,939



STATEMENT OF CASH FLOWS

	Audited 12 Months Ended 30 June 2001 \$	Audited 6 Months Ended 31 December 2001 \$	Unaudited 6 Months Ended 30 June 2002 \$
Cash Flows from Operating Activities			
Payments to Suppliers and Employees	(3,884)	(56,876)	(139,787)
Net Cash used in Operating Activities	(3,884)	(56,876)	(139,787)
Cash Flows from Investing Activities			
Payment for Investments	-	(200,000)	(500,000)
Payment for Plant and Equipment	-	(3,289)	(3,614)
Net Cash used in Investing Activities	-	(203,289)	(503,614)
Cash Flows from Financing Activities			
Proceeds from Share Issues	4,000	200,000	500,000
Proceeds from Borrowings	-	65,030	145,030
Net Cash used in Financing Activities	4,000	265,030	645,030
Net Increase/Decrease in Cash held	116	4,865	1,629
Cash at the beginning of the Financial Period	-	116	116
Cash at the end of the Financial Period	116	4,981	1,745

The financial information detailed below is extracted from SDF's unaudited internal management accounts for the year ended 30 June 2002. The illustrative examples which assume a Minimum Subscription and a Maximum Subscription have been prepared on the basis of the assumptions noted in Section 6.2 and 6.4 of the Prospectus.

In respect to the accounting treatment for the issue of 4,496,000 fully paid ordinary shares for no consideration to certain Directors, the Minimum Subscription and Maximum Subscription illustrative examples below incorporate adjustments for this transaction on the basis that, for accounting purposes, a value of 10 cents per share has been assigned to these shares. In this respect, the Contributed Equity Account has been increased by \$449,600 and decreased by \$219,200 representing the past and future services rendered by these Directors in respect of capital raising services, (consistent with the treatment of other capital raising costs of \$550,000 and \$900,000 in the Minimum Subscription and Maximum Subscription examples), and the Accumulated Losses Account has been increased by \$230,400 representing past remuneration of these Directors. These transactions will be recorded in SDF's financial statements for the six months ending 31 December 2002.

STATEMENT OF FINANCIAL POSITION

	Unaudited Year Ended 30 June 2002 \$	Pro Forma Min \$	Max \$
Current Assets			
Cash Assets	1,745	1,521,121	6,671,121
Prepayments	37,204	37,204	37,204
Capitalised Capital Raising Costs	125,913	-	-
TOTAL CURRENT ASSETS	164,862	1,558,325	6,708,325
Non Current Assets			
Property, Plant and Equipment	3,614	3,614	3,614
Other Financial Assets accounted for under the Equity Method	500,000	2,250,000	2,250,000
TOTAL NON CURRENT ASSETS	503,614	2,253,614	2,253,614
TOTAL ASSETS	668,476	3,811,939	8,961,939
Current Liabilities			
Payables	161,507	-	-
Non Interest Bearing Liabilities	145,030	-	-
TOTAL CURRENT LIABILITIES	306,537	-	-
TOTAL LIABILITIES	306,537	-	-
NET ASSETS	361,939	3,811,939	8,961,939
EQUITY			
Contributed Equity	584,000	4,264,400	9,414,400
Accumulated Losses	(222,061)	(452,461)	(452,461)
TOTAL SHAREHOLDERS' EQUITY	361,939	3,811,939	8,961,939



STATEMENT OF CASH FLOWS

	Unaudited Year Ended 30 June 2002 \$	Pro Forma Min \$	Max \$
Cash Flows from Operating Activities			
Payments to Suppliers and Employees	(139,787)	(175,381)	(175,381)
Net Cash used in Operating Activities	(139,787)	(175,381)	(175,381)
Cash Flows from Investing Activities			
Payment for Investments	(500,000)	(2,250,000)	(2,250,000)
Payment for Plant and Equipment	(3,614)	(3,614)	(3,614)
Net Cash used in Investing Activities	(503,614)	(2,253,614)	(2,253,614)
Cash Flows from Financing Activities			
Proceeds from Share Issues	500,000	4,500,000	10,000,000
Proceeds from Borrowings	145,030	145,030	145,030
Repayment of Borrowings	-	(145,030)	(145,030)
Payment of Capital Raising Costs	-	(550,000)	(900,000)
Net Cash used in Financing Activities	645,030	3,950,000	9,100,000
Net Increase/Decrease in Cash held	1,629	1,521,005	6,671,005
Cash at the beginning of the Financial Period	116	116	116
Cash at the end of the Financial Period	1,745	1,521,121	6,671,121

2. AUSPEP and ARA Financial Information

AUSPEP

The financial information detailed below is extracted from Auspep's audited financial statements for the years ended 30 June 2000 and 2001, and from Auspep's unaudited internal management accounts for the year ended 30 June 2002.

	Unaudited Year Ended 2002 \$	Audited Year Ended 2001 \$	Audited Year Ended 2000 \$
STATEMENT OF FINANCIAL PERFORMANCE			
Sales revenue	2,610,738	2,211,405	1,707,115
Profit/(loss) from ordinary activities before income tax	254,399	184,921	(77,335)
Income tax benefit relating to ordinary activities	59,520	-	-
Net profit/(loss) from ordinary activities after income tax	313,919	184,921	(77,335)
STATEMENT OF FINANCIAL POSITION			
Total Current Assets	692,789	726,666	429,543
Total Non-Current Assets	352,738	178,266	253,825
Total Assets	1,045,527	904,932	683,368
Total Current Liabilities	229,905	419,035	366,260
Total Non-Current Liabilities	34,439	18,633	34,765
Total Liabilities	264,344	437,668	401,025
Net Assets	781,183	467,264	282,343
Contributed Equity	1,347,647	1,347,647	1,347,647
Accumulated Losses	(566,464)	(880,383)	(1,065,304)
Total Equity	781,183	467,264	282,343
STATEMENT OF CASH FLOWS			
Net Cash Flows From Operating Activities	170,397	238,283	93,162
Net Cash Flows From Investing Activities	(216,487)	(22,089)	6,250
Net Cash Flows From Financing Activities	(17,120)	(38,330)	(82,749)
Net increase/(decrease) in cash held	(63,210)	177,864	16,663
Cash at 1 July	131,774	(46,090)	(62,753)
Cash at 30 June	68,564	131,774	(46,090)



ARA

The financial information detailed below is extracted from ARA's unaudited internal management accounts for the year ended 30 June 2002.

Notwithstanding that ARA was incorporated in November 1998, ARA only commenced operational and trading activities in November 2001 and such activities are reported in the year ended 30 June 2002. ARA, prior to 30 June 2001 did not trade or carry on any business activities nor received income nor incurred expenses.

**Unaudited
Year Ended
2002
\$**

STATEMENT OF FINANCIAL PERFORMANCE

Revenue	-
Loss from ordinary activities before income tax	(113)
Income tax relating to ordinary activities	-
Net loss from ordinary activities after income tax	(113)

STATEMENT OF FINANCIAL POSITION

Total Current Assets	13,218
Total Non-Current Assets	490,000
Total Assets*	503,218
Total Current Liabilities	2,931
Total Liabilities	2,931
Net Assets	500,287
Contributed Equity	500,400
Accumulated Losses	(113)
Total Equity	500,287

* ARA has provided a fixed and floating charge over its assets to the National Australia Bank Limited in support of the provision of loan funding to BAC.

STATEMENT OF CASH FLOWS

Net Cash Flows From Operating Activities	(113)
Net Cash Flows From Investing Activities	(490,000)
Net Cash Flows From Financing Activities	503,331
Net increase in cash held	13,218
Cash at 30 June	13,218

3. Auspep

The following sentence in Section 4.3 of the Prospectus is deleted:

"Today, this Australian owned company commands a market leadership in custom peptide synthesis in Australia and is exploring larger opportunities for value added GMP grade product here and overseas;"

and replaced with:

"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."

The following sentence in Section 4.3 of the Prospectus is deleted:

"Synthetic peptides are at the core of the rapidly growing biotechnology industry;"

and replaced with:

"Synthetic peptides are important to the rapidly growing biotechnology industry."

The following sentence in Section 4.3:

"The market for GMP quality peptides is growing strongly and offers higher revenue opportunities when compared to non-GMP catalogue and custom peptides."

is amended by deleting the word "strongly".

4. PKF CONSENT

PKF has given, and not withdrawn prior to the lodgement of this supplementary document with the ASIC, its written consent to be named in the Prospectus as Auditor and Tax Advisor to SDF in the form and context it is so named and has not withdrawn its consent to the inclusion in the Prospectus of its Independent Taxation Report in the form and context in which it is included and to the statement which appears in section 6.1 of the Prospectus that PKF has issued unqualified audit opinions in respect of the financial statements of SDF for the 12 month period ended 30 June 2001 and the 6 month period ended 31 December 2001. PKF takes no responsibility for any part of the Prospectus or this supplementary document other than any reference to its name, its Independent Taxation Report and the statement that it has issued an unqualified audit opinion in respect of the SDF financial statements for the 12 month period ended 30 June 2001 and the 6 month period ended 31 December 2001.

This supplementary document is dated 15 August 2002 and was lodged with ASIC on that date. Neither ASIC nor the ASX take any responsibility for the contents of this supplementary document.

This supplementary document is signed by Michael McDonald, who signs it for and on behalf of and with the authority of each Director of the Company, each of whom has consented to the lodgement of this supplementary document with ASIC.



Michael McDonald
Director
State Development Fund Limited