



30 November 2006

Company Announcement Office  
Bendigo Stock Exchange  
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Flinders Lane, Melbourne  
Vic 8009

By facsimile: 02-49291556

RE: Announcement by State Development Fund Limited

Please find attached the Chairman's speech for the Annual General Meeting of State Development Fund Limited, being held this afternoon at 3.00pm at 15 Marengo Drive, Tullamarine.

By order of the Board of Directors



Peter J. Kral  
Company Secretary

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## ***Chairman's Address to the State Development Fund Annual General Meeting 2006***

I welcome you to the Annual General Meeting of State Development Fund Limited for the year ending 30 June 2006.

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

State Development Fund (SDF) has a 69% interest in Australian Regional Airports Pty Ltd (ARA). ARA holds a 49% interest in Burnie Airport Corporation (BAC) with the Burnie City Council holding the other 51%. In 2002 BAC acquired the Burnie- Wynyard Airport. The Burnie-Wynyard Airport complex covers approximately 223 hectares of land.

SDF also has a 76% interest in Auspep, a manufacturer and distributor of synthetic peptides to pharmaceutical companies and research and development institutions in Australia and overseas. Auspep's stated aim has been to establish a GMP accredited manufacturing facility. This aim was realised in May 2006.

Both investments have performed well during 2005/06. The Burnie-Wynyard Airport had 92,589 passengers for the year compared to its nearest competitor Devonport with 91,543 passengers. 2005/06 is the first year that Burnie-Wynyard has had a greater volume of passengers than Devonport. This reflects a 20% decline in passenger numbers in 2005/06 for Devonport compared with a 3% fall in Burnie-Wynyard's numbers. Devonport's dramatic fall in passenger numbers has been due to price pressure from Virgin and Jetstar operated flights into Launceston.

BAC's revenue for the year ended 30 June 2006 remained steady at around \$1.3 million.

In July 2006 Qantas announced that it was withdrawing from servicing several key regional airports around Australia including Burnie-Wynyard. BAC immediately negotiated with Regional Air Express (Rex) which also serviced Burnie-Wynyard and Rex committed to introducing more flights and improved scheduling for services between Burnie-Wynyard and Melbourne. In the transition period from 1 August 2006 to 9 October 2006 passenger numbers were down 10% on the previous year. However, for the full month of October, with the introduction of additional services by Rex, passenger numbers recovered strongly and were only 1% below October 2005.

BAC is in the process of upgrading the Burnie-Wynyard Airport Terminal at a cost of around \$600,000. This upgrade will be completed within the next month.

Of the 223 hectares of land at the airport complex nearly 65 hectares is designated for industrial development and 7.2 hectares for residential development.

As advised in the Annual Report, the value of BAC's Burnie-Wynyard airport assets is \$8.2 million which is a significant appreciation on the \$2.5m purchase price.

In May 2006 Auspep was granted approval from the Therapeutic Goods Administration (TGA) to produce clinical grade peptides in a new GMP (Good Manufacturing Practice) facility at Auspep's Tullamarine headquarters. This GMP accreditation will provide opportunities to increase revenues through sales into both the domestic and export markets. GMP quality peptides provide higher profit margins than non GMP catalogue and custom peptides.

A significant global pharmaceutical company has already placed several large orders for GMP peptides with Auspep. This pharmaceutical company has also audited Auspep's facilities and approved its GMP peptides for export. Expectations are that the pharmaceutical company will export to its own manufacturers in the lucrative European market. As of 30 June 2006, and subsequently, Auspep has received orders in excess of \$1million for its specialised products and services which will be delivered in the 2006/07 financial year.

At the last Annual General Meeting of Auspep, three new directors were appointed. I would like to introduce Mr Richard Ryan, Auspep's Chairman, and Professor Ian Smith, an independent director.

Richard has many years experience as a Chartered Accountant, Chief Executive and Company Director. He is Chancellor of the Charles Darwin University and is Chairman of the computer software company Editure Ltd. He is also a member of the Australian Government Solicitor Advisory Board and a fellow of the Institute of Chartered Accountants.

Ian is a professorial Fellow and founding Director of Biomedical Proteomics in the Department of Biochemistry and Molecular Biology at Monash University. He has published over 180 papers in major international journals and has filed six patents.

I am the third director appointed at last year's Annual General Meeting of Auspep.

Richard, Ian and myself joined Chris Chandler, the long serving CEO of Auspep and John Nissen in developing strategies to capitalise on Auspep's GMP status.

The Auspep board has commissioned an independent review of the company's strategic direction and market focus. The recommendations will be considered and implemented over the next two years.

Auspep is actively pursuing the best way to raise \$2-\$2.5 million in working capital to enable the relocation of the company's West Melbourne facility to Tullamarine, to upgrade equipment and also for marketing.

As previously advised, the Board of SDF over recent months has been examining the restructuring of SDF. We are conscious that any restructuring should benefit all shareholders and strengthen the company. The Board of SDF believes that its investment in Burnie-Wynyard airport has been most successful and is looking to exit this investment at an appropriate time in the near future. The Board of SDF has appreciated the effective management skills of Paul Arnold, Chairman of BAC. SDF has been well represented on the BAC board by Michael McDonald and John Nissen. The eventual sale of SDF's interests in BAC will allow the company to focus more fully on maximizing Auspep's potential. The SDF Board hopes to make an announcement about the restructuring of the company before Christmas.

On behalf of my fellow directors I would like to express appreciation to Mr. Peter Kral for his effective management of the company's affairs over the last seven months.

Legh Davis  
Chairman, State Development Fund Limited