



FACSIMILE TRANSMITTAL SHEET

TO:	George Wyatt	FROM:	Robert Payne
COMPANY:	Bendigo Stock Exchange	DATE:	6/8/2003
FAX NUMBER:	03 5444 0033	TOTAL NO. OF PAGES INCLUDING COVER:	2
PHONE NUMBER:		SENDER'S REFERENCE NUMBER:	
RE: SDF SHAREHOLDER INFORMATION BULLETIN		YOUR REFERENCE NUMBER:	

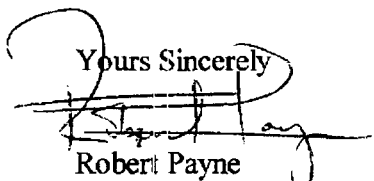
☐ URGENT ☒ FOR REVIEW ☐ PLEASE COMMENT ☐ PLEASE REPLY ☐ PLEASE RECYCLE

NOTES/COMMENTS:

George

Please find enclosed an offer information bulletin that I would like to lodge with the Bendigo Stock Exchange.

Yours Sincerely



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Chief Executive Officer

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Shareholder Information Bulletin

Robert Payne
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6 August 2003

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Summary

State Development Fund Limited (SDF), a Pooled Development Fund (PDF), has raised \$5.63 million from its current subscribers and listed on the Bendigo Stock Exchange on 4 June 2003 issuing 27,684,000 ordinary fully paid shares.

SDF has already acquired its first two investee companies, Auspep Holdings Pty Ltd (**Auspep**), which is 90% owned by SDF, and Australian Regional Airports Pty Ltd (**ARA**), 69% owned by SDF.

Auspep is the largest Australian owned manufacturer of synthetic peptides that are essentially parts of proteins used in the development of drugs. Auspep is both profitable and growing.

ARA is the joint owner, with Burnie City Council, of the Burnie Wynyard Airport in north-west Tasmania, and the industrial park attached to the airport. ARA intends to acquire and/or manage other regional gateway airports. One of the leading Australian airport consultants Rod Sullivan, through his company Airport Consulting Pty Ltd, is also a significant shareholder and director of ARA.

The management and Board of SDF acts as a hands-on investment group to develop existing assets and locate other growth companies. The board strongly supports the concept of the Commonwealth Governments' Pooled Development Funds Act 1992, which recognises the need to encourage access to development capital and foster growth of promising Australian small businesses. The unique feature of this legislation is to exempt investors from any capital gains on the sale of shares in a PDF. SDF will seek to expand Auspep and ARA and to invest in other emerging companies, which are well managed and have a strong growth potential.

In keeping with the pooled development concept SDF intends to offer patient capital and strategic advice to investee companies. At the appropriate time each investee company will be floated (in whole or in part) on the Australian Stock Exchange. However, the timing of this will depend on prevailing market conditions and a range of other factors. Proceeds from each listing will be used for working capital of the fund and to either return tax-free capital to shareholders and/or to purchase other emerging companies.

The Board and Management

Sir Laurence Muir, Chairman : is a director of Publishing and Broadcasting Ltd (PBL) and a former director of the ANZ Banking Group Ltd, Alcoa of Australia Ltd, Herald and Weekly Times Ltd, Australian Consolidated Industries Ltd, Hudson Conway Ltd, Air Liquide Ltd and other companies. He was for some years chairman of Templeton Global Growth Fund Ltd. His recent centenary medal citation was for "outstanding service to the business, financial and research communities". He was a leading underwriter and corporate financier in the halcyon days of Ian Potter and Company (later Potter Partners). As patron of the Baker Medical Research Institute, the Micro Surgery Research Institute (The Bernard O'Brien Institute) and Earthwatch Institute he maintains a close connection with medical and environmental research in Australia.

Legh Davis, Deputy Chairman: is currently State Chairman of ABN AMRO Morgans in Adelaide. He was elected to represent the Liberal Party in the Legislative Council in 1979 and retired at the South Australian State elections held in February 2002. During his term in Parliament he was Deputy Leader of the Opposition in the Legislative Council and party spokesman in a number of portfolio areas. Mr Davis is a former State President of the Securities Institute of Australia and lecturer in law and economics at the South Australian Institute of Technology.

John Nissen, Non Executive Director : Mr Nissen is a founding shareholder and director of Golf Australia Holdings Limited, and the Chairman of CED Australasia Limited and Deputy Chair of Rhys Capital Pty Ltd. Mr Nissen is a director of ARA and is also a director and the principal shareholder of Aussep. 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.

Peter King, Non Executive Director: 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.

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.

Michael McDonald, Non Executive Director: 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 specialises in Philippine law and served for five years as the Honorary Consul-General for the Philippines based in Victoria and was president of the Australia Philippines Business Council for 3 years from 1997 to February 2000.

Robert Payne, Chief Executive Officer: 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. He then moved to the US and 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.

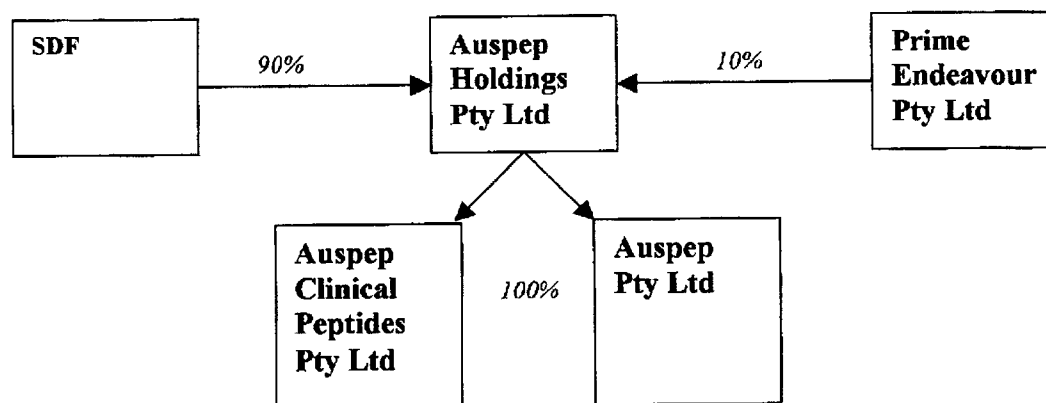
Since returning to Australia in 1994, Dr Payne has specialised in growing small businesses, particularly subsidiaries of larger American companies keen to expand their operations in Australia and South East Asia. Dr Payne was previously employed by stockbroking firms Austock Brokers, HPJDV Limited and D&D Tolhurst, and legal firm Freehills, advising and consulting to clients on public floats, capital raisings and private placements.

The Investments

Auspep Holdings Pty Ltd

Auspep owns 100% of Auspep Pty Ltd and 100% of Auspep Clinical Peptides Pty Ltd (ACP). SDF has a 90% equity interest in Auspep while an entity associated with John Nissen, a director of SDF, owns the remainder as outlined in Figure 1.

Figure 1



Auspep is the largest Australian owned manufacturer of peptides which are used in medical and veterinary research and for drug development in the pharmaceutical industry. Auspep is a customer service driven company, which prides itself on its reputation. The company has built an impressive client base in custom synthesis, totaling over 420 national and international customers, which include major corporations such as CSL, Peptech, GlaxoSmithKline, Biota, Hoechst, Pharmacia, Calbiochem, Harvard Medical School, The Howard Florey Institute and Cambridge University.

Following Auspep's success in the Australian market with custom and catalogue peptides it is now obvious that larger opportunities exist for Auspep in the markets for value added GMP (Good Manufacturing Practice) grade product and through expanding its overseas customer base. Many of Auspep's customers use peptides for the purpose of drug development. As the peptide advances through the phases of clinical trials, the requirement for the peptide to be produced in a GMP facility becomes mandatory.

Auspep will undertake the manufacture peptides suitable for use in human clinical trials at a newly constructed plant at Tullamarine in Victoria. Once this facility has achieved GMP status, Auspep will become the only commercial manufacturer of clinical grade peptides in Australia. The completion of the facility and consequent approval is expected by the first quarter 2004.

The ability to manufacture GMP peptides will enable Auspep to supply these peptides for human trials. This investment will be a key driver in Auspep's future growth.

The market for GMP quality peptides is growing at 20% per annum according to Swiss company Bachem, the world market leader in the manufacture of synthetic proteins. GMP grade synthetic peptides offer Auspep higher revenue opportunities when compared to non-GMP catalogue and custom peptides. For example, 25 milligrams of research grade peptide can be sold for around \$800 to \$1,000, whereas 25 milligrams of GMP quality peptide can sell for \$4,000 to \$5,000. Furthermore, local customers are readily identifiable.

Auspep, Due to capital constraints, in the past has been unable to meet requests for GMP quality peptides and local customers are going offshore to source their requirements. This new GMP facility will allow Auspep to build its capabilities in this area. The facility will be used to supply global markets following approval from the applicable regulatory bodies, firstly with the Therapeutic Goods Administration in Australia (TGA) then European (CEMark) and finally USA approval (FDA).

Auspep estimates the revenues attributable to GMP manufacturing in 2005/6 will be 25% of forecast total revenues of \$5.3 million and net profit before tax of \$1 million, based on a business plan prepared for the company by Deloitte Touch Tohmatsu in April 2002.

The current objectives of the SDF Board are:

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

SDF's overall objective is for Auspep to become a high growth and focused global supplier of synthetic peptides for research and drug development with a view to seeking a stock exchange listing within three years. SDF will encourage Auspep to adopt the following strategies to achieve this objective:

- 1) look for potential joint ventures or acquisitions to enter the US market
- 2) continue to broaden and strengthen the resources of Auspep in the areas of business management and production; and
- 3) pursue collaborative projects focused on developing Auspep's intellectual property.

In April 2002, Deloitte Touche Tohmatsu estimated the indicative value of Auspep at between \$6.4 million and \$9.65 million based on a discounted cash flow using discount rates of 15% and 25%. SDF has acquired 90% of the company for \$4.5 million, which represents a discount to the indicative market value of Auspep of between 21.9% or 48.2% based on the discount rates used. Auspep's current earnings are on track with projections and given they continue to be met, SDF directors believe Auspep will achieve an independent valuation in the range \$9 – 12 million when it seeks ASX listing.

The financial information detailed below is extracted from Auspep's audited financial statements for the years ended 30 June 2001 and 2002, and from Auspep's un-audited internal management accounts for the year ended 30 June 2003.

In 2002/03 Auspep reported revenue of \$3 million (unaudited) compared with revenue of \$2.53 million in 2001/02. Net profit before tax for 2002/03 was \$60,000. The reduction in net profit in 2002/03 compared with the previous year was due to one off expenses, unbudgeted and of a non recurring nature, which amounted to \$228,000 and were largely a reflection of the companies move from private ownership to now being controlled by a public entity, State Development fund. These expenses occurred in the areas of stock adjustment, exchange rate fluctuations and reduced management fees from the company's USA subsidiary. All tax losses available to this entity have now been utilised.

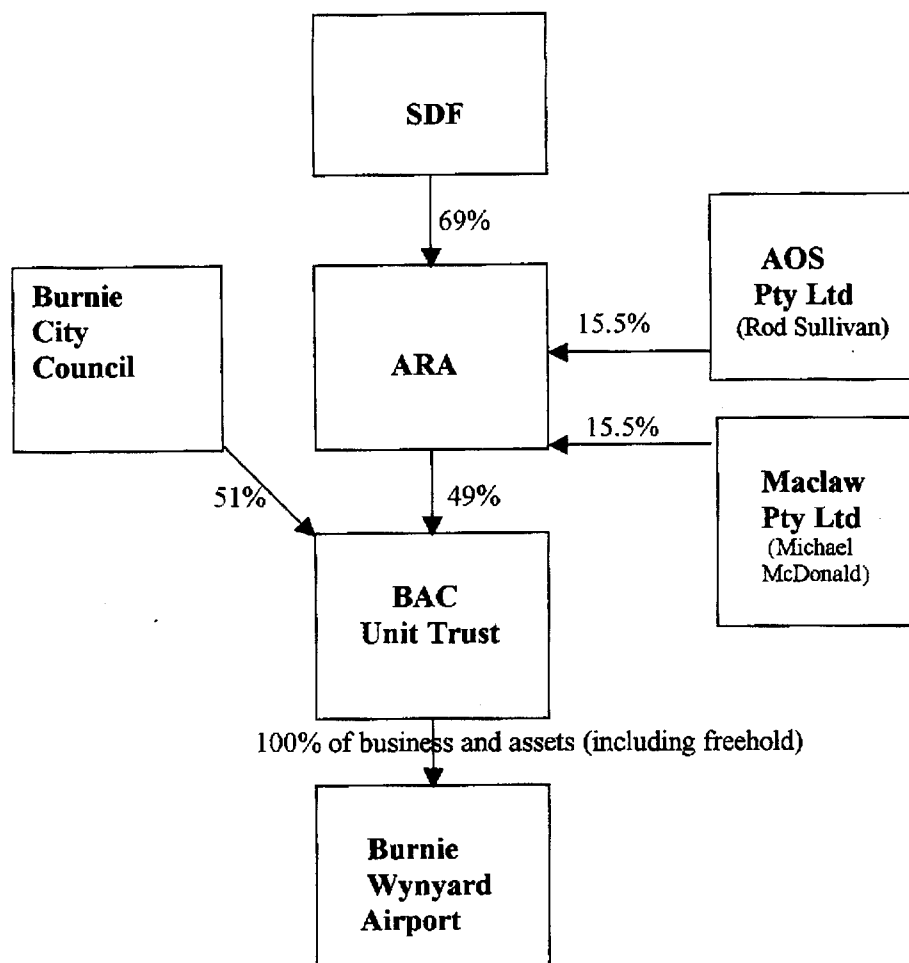
	Unaudited Year ended 2003 \$	Audited Year ended 2002 \$	Audited Year ended 2001 \$
STATEMENT OF FINANCIAL PERFORMANCE			
Sales Revenue	2,977,646	2,536,1070	2,166,709
Profit from ordinary activities before Income tax	59,810	191,051	197,037
Income tax expense/(benefit) relating to ordinary activities.	-	(81,367)	-
Net Profit from Ordinary Activities after income tax	59,810	272,418	197,037
STATEMENT OF FINANCIAL POSITION			
Total Current Assets	695,343	629,458	726,667
Total Non-Current Assets	419,504	364,973	178,266
Total Assets	1,114,847	994,431	904,933
Total Current Liabilities	310,238	216,475	419,035
Total Non-Current Liabilities	29,385	38,273	18,633
Total Liabilities	339,623	254,748	437,668
Net Assets	775,224	739,683	467,265
Contributed Equity	1,347,206	1,347,647	1,347,647
Accumulated Losses	(571,982)	(607,964)	(880,382)
Total Equity	775,224	739,683	467,265
STATEMENT OF CASH FLOWS			
Net cash flows from operating activities	237,806	148,843	242,908
Net cash flows from Investing activities	(149,256)	(216,487)	(22,600)
Net cash flows from Financing activities	34,201	(14,835)	(38,330)
Net increase/ (decrease) in cash held	122,751	(82,479)	181,978
Cash at July 1	48,254	130,733	(51,245)
Cash at 30 June	171,005	48,254	130,733

Although relocation of plant and offices could affect production efficiency over the next 6 months, Aussep is budgeting a 14.2% increase in sales in 2003/04 financial year to \$3.4 million with net profit before tax forecast to be \$0.28 million. The company is well advanced in its preparations for relocation to its new premises at Tullamarine Victoria. The plant relocation and its GMP accreditation should be complete by the first quarter 2004.

Australian Regional Airports Pty Ltd

ARA, which was established in 2000, is a company pursuing business in existing regional airport infrastructure ownership and management.

Figure 2:



As outlined in Figure 2 ARA owns 49% of the Burnie Airport Unit Trust (BAC), which in turn owns 100% of the business and assets of the Burnie Wynyard Airport. ARA's equity partner, the Burnie City Council (BCC), owns the remaining 51% of BAC.

SDF has a 69% equity interest in ARA, the remaining 31% being split between Maclaw Pty Ltd, an entity controlled by Michael McDonald and AOS Pty Ltd, an entity controlled by Rod Sullivan.

ARA has established a relationship with Rodney Sullivan, who 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.

The Burnie Wynyard Airport was acquired in November 2001 for \$2.5 million and has since been independently revalued for rating purposes at \$3.4 million. The directors of SDF believe that an independent valuation of \$4-5 million would be achieved through the current increase in real estate values in the Burnie Wynyard area. Revenues generated by the airport between July 2002 and June 2003 were \$1.033 million with \$0.345 million cash on hand as at 30 June 2003.

ARA currently has a contract to provide services to the Burnie Wynyard regional airport in North-West Tasmania. Revenue is generated from passenger and freight levies, landing charges and property management and development. The Burnie Wynyard Airport comprises approximately 223 hectares of land, all of which was rezoned for industrial use as an outcome of the Waratah-Wynyard planning scheme review. 93-hectares of this land has been designated for immediate industrial development.

BAC Industrial Park and Vestas Wind Systems

The first industrial development has been undertaken by Vestas Wind Systems (Vestas), a major Danish manufacturer of wind turbines, which has constructed a \$15 million nacelle assembly plant on a 5 hectare site provided by BAC. Vestas commenced its nacelle (turbine framework) manufacturing operations on July 10, 2003 under contract to the Hydro Electric Commission of Tasmania. Vestas is also expected to locate a \$50 million blade manufacturing plant on an adjacent site over which it holds an option to purchase an additional 18.6 hectares of land from BAC. The BAC directors fully expect this option to be exercised by June 2004. These two developments together will directly employ up to 150 people and also attract ancillary and other industries to the estate.

Vestas installs wind power capacity on a global basis and in 2002 reported a turnover of 1.395 billion EUR (Approx \$A2.4 billion), an increase of 9% on the previous year. Vestas forecasts an increase in revenues through 2003 to reach 1.7-1.8 billion EUR focusing primarily on firm and unconditional orders out of the USA.

Although the income generated in the last financial year was from direct airport activities, BAC intends ramping up its property development arm in the next 12 months by selling off 45 residential allotments on 7 hectares and a further 15 allotments on 46.5 hectares, thereby generating additional revenue. BAC will also continue the industrial development on the balance of the land of 70 hectares.

ARA also has plans to broaden its role in the management and development of regional airports across Australia. A number of gateway airports are presently under consideration. Most of these, because of the high incidence of passengers, are genuine local community assets providing an important essential service. These airports are surrounded by valuable, although to date underdeveloped, real estate.

Burnie Airport Corporation Unit Trust Limited

Figure 2, on page 8, outlines SDF's ownership of 69% of ARA, which in turn owns 49% of BAC, the 100% owner of the business and assets of the Burnie Wynyard Airport. This means SDF has an effective 33.81% interest in BAC.

For the year ending 2003, BAC recorded \$1.033m in sales revenue, net profit before tax of \$0.14million and had year-end cash reserves of \$0.35million. In the 2002/03 financial year 92,773 passengers passed through the Burnie Wynyard airport, the best result since 2000/01.

Burnie Wynyard Airport

Year (to 30 June)	Passenger Numbers
1997/98	110,687
1998/99	111,314
1999/2000	95,570
2000/01	90,382
2001/02	71,875
2002/03	92,773

The composition of passenger service carriers has changed over the last 12 months, which reflects the success Qantaslink has had over Rex and Tas Air in flight occupancy in the last year. Qantaslink carried 65% of all passengers through Burnie Wynyard Airport, the flights being on average 69% occupied. This compared to Rex which, transported 29% of all passengers through the airport with an average occupancy of 40%. During this winter Rex has reduced the number of flights to Burnie, while Qantaslink has increased its flight numbers. Passenger fees will remain constant in the next financial year and passenger numbers are projected to increase to 95,000. The 2002/03 financial accounts for BAC (which was established in December 2001) are detailed below.

Burnie Airport Corporation Unit Trust

**Unaudited
Year ended
June 2003
\$**

STATEMENT OF FINANCIAL PERFORMANCE

Sales Revenue	1,033,518
Profit from ordinary activities before Income tax	138,259
Income Tax benefit relating to ordinary activities	
Net Profit from Ordinary Activities after income tax	138,259

STATEMENT OF FINANCIAL POSITION

Total Current Assets	490,046
Total Non-Current Assets	2,650,887
Total Assets	3,140,933
Total Current Liabilities	37,683
Total Non-Current Liabilities	1,986,271
Total Liabilities	2,023,954
Net Assets	1,116,979
Trust Funds	
ARA	490,000
BCC	510,000
Accumulated Losses	(21,280)
Earnings in Current Period	138,259
Total Equity	1,116,979

STATEMENT OF CASH FLOWS

Net cash flows from operating activities	165,489
Net cash flows from investing activities	(30,446)
Net cash flows from financing activities	-
Net increase/ (decrease) in cash held	135,043
Cash at July 1	210,349
Cash at 30 June	345,392

Pooled Development Funds

PDF's were established through the Pooled Development Funds Act (1992), providing various concessions to encourage investments in small to medium – sized companies in Australia. One of the main concessions to investors is an exemption from capital gains tax on the sale of their PDF shares.

This can be particularly attractive to investors with either short or long term objectives, since any profits derived from trades or long-term investments are tax free. Investors who receive dividends from PDF's are also exempt from income tax on unfranked dividends. These dividends can be treated either as being exempt from income tax or assessable with franking credits, at the discretion of the investor.

Franking credits are calculated at the 30% corporate tax rate, despite the PDF only having to pay 15%, creating additional franking credits for investors.

The following table details some PDF's listed on Australian Stock Exchanges.

Table 1: Share price performance of some listed PDF's

<i>Code</i>	<i>Name</i>	<i>Market Cap (\$m)</i>	<i>12 month High**</i>	<i>12 month Low**</i>	<i>Sector</i>
Pooled Development Funds (PDFs)					
BTC	Biotech Capital	22	\$0.38	\$0.24	Biotechnology
CID	Citadel	3	\$0.19	\$0.12	Technology
FWF	First Wine Fund	3	\$0.35	\$0.25	Wine industry
JAM	JAM Development Capital	4	\$0.20	\$0.16	Diversified
LSG	Lion Selection Group	152	\$1.62	\$0.83	Mining and gold
MCA	Medica Holdings	35	\$1.20	\$0.56	Biotechnology
SPL	Starpharma	28	\$0.71	\$0.20	Biotechnology
SPD	Strategic PDF	13	\$0.22	\$0.14	Biotechnology
VIT	Vital Capital	26	\$0.35	\$0.16	Diversified
SDF	State Development Fund *	7	\$0.27	\$0.22	Diversified

Source: Shares Magazine July 2003

- * Listed on the Bendigo Stock Exchange
- ** Data at 30th June 2003

An overview of the share price performance of listed investment funds, including PDF's, suggest that there are two key drivers in determining the success of the investment fund, namely the performance of the underlying investments and the size and liquidity of the fund itself.

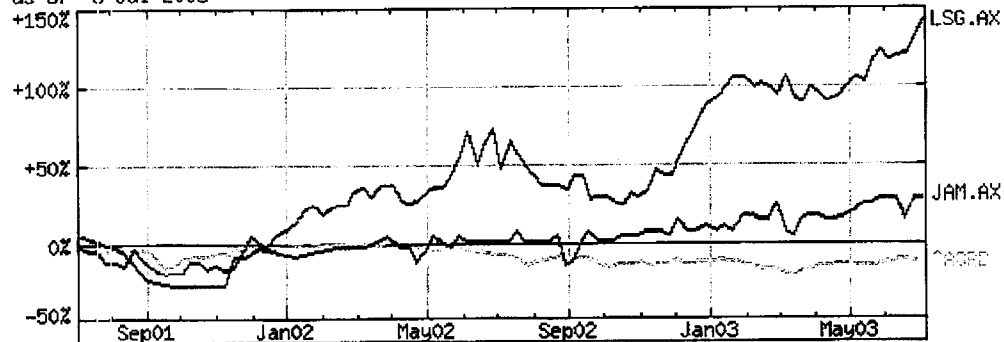
Although over recent years some PDF's have not performed well due to their small size, high cost base and the downturn in the technology sector and small cap market generally, a number of PDF's have consistently outperformed the ASX All Ordinaries Index providing excellent returns to their shareholders. PDF's with solid performances in 2002/03 were Citadel CID, Jam Investment Capital (JAM) and Lion

Selection (LSG) returning 62%, 21% and 77% respectively in the 12 months to June 2003 (see Figure 3).

Figure 3: PDF share price performance compared to the All Ordinaries Index

LION SELECTN GRP

as of 3-Jul-2003



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Company Outlook

SDF differs from many other PDF's in that there is no associate management company responsible for the investment management and decisions. This will save on costs and keep working capital requirements to a minimum.

While the company recognises that equity markets have been impacted in the last two years by a tough economic climate and serious world events it believes the listing on the Bendigo Stock Exchange (BSX) is opportune as the valuation of the small cap sector would appear to be close to a cyclical low. The prices paid for the two announced investments (Auspep and ARA) are below market valuation.

The 90 % investment SDF has made in Auspep reflects the confidence SDF has in the ability of this company to expand its international sales and play a significant role in providing a range of GMP grade synthetic peptides to both national and international clients. Gaining GMP accreditation for its plant and expanding sales into the human clinical market will allow Auspep to grow its margins from 8% to as much as 25% of sales. Based on \$1.28million in sales projected from GMP grade product by 2005/06, directors are forecasting an indicative valuation of Auspep of between \$9million - 12million in 2005/06.

In respect of ARA, the intention of the Board of SDF is to acquire interests in additional regional airports and bring them 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 that ARA becomes an attractive target to a trade buyer or is suitable for an IPO. SDF has a pipeline of new investments under negotiation, initiated by the investment market experience of the Board and management, which supports the company's objective of growing the size of the fund and increasing the number of investments under management.

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