26 September 2007

STATUTORY ACCOUNTS FOR TWELVE MONTHS TO 30 JUNE 2007

State Development Fund (SDF) reported a loss of $21,348 for the full year ended 30 June 2007 compared with a loss of $372,457 for the previous period.

The significant improvement in results is directly attributable to the operational performance of SDF's two investments and reduced administrative costs in SDF. In particular;

- Auspep, in which SDF has 76% ownership, increased its net profit after tax from $17,808 to $106,560 on a 6% turnover improvement. This has been attributable, in part, to Auspep having received GMP accreditation for its new facility at Tullamarine.
- SDF has been advised it will receive approximately $60,000 from the 2006/07 results of its 33.81% stake in the Burnie Airport Corporation(BAC). BAC owns the business and assets of the Burnie-Wynyard Airport. The airport has had a successful year with turnover of $1,166,118 and a profit of $189,413.
- SDF expects to receive increased cash inflows in 2007/08 from the sale of industrial and residential land owned by BAC.
- The Board has evaluated several strategic alternatives for the corporate structure of SDF with the objective of maximising shareholder's wealth. During the year SDF offered 2 (two) SDF shares for each Auspep Holdings share not already owned by SDF to facilitate an upward consolidation of the Auspep Group into SDF. Unfortunately due to the disappointing response of Auspep shareholders the Board has decided to consider alternative opportunities and not pursue this option. As part of this continuing process the Board is evaluating the benefits to shareholders of continued compliance with the PDF Act. The Venture Capital Registration Board has granted an extension of SDF's PDF status until 11 May 2008.

For further information please contact the Chairman
Mobile 0419 806142

Suite 122D, 530 Little Collins Street, Melbourne, Victoria, 3000
Tel: +61 3 8686 5600, Fax: +61 3 8686 5601
A.C.N. 093 639 064

STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES
ABN 093 639 064

FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2007

state development fund

Chairman's Letter Wednesday, 26 September 2007

I take great pleasure in presenting the annual report of State Development Fund Limited **("SDF")** for the financial year ended 30 June 2007.
SDF is a Pooled Development Fund, which has two investments displaying potential for capital growth and profitability. In the 2007/08 year, the Board of Director's of SDF have focussed their efforts on the consolidation and expansion of SDF's existing investments, Auspep Holdings Ltd and controlled entities **("Auspep Group")**, and Australian Regional Airports Pty Ltd **("ARA")**.

SDF owns 76% of the Auspep Group, an established Australian manufacturer and distributor of synthetic peptides. During the course of the year, the Auspep Group has capitalised on its position as Australia's first Good Manufacturing Practice **("GMP")** facility for the manufacture of synthetic peptides. This facility is located at Tullamarine, Victoria and has been accredited by the Therapeutic Goods Administration **("TGA"). TGA** accreditation gives the Auspep Group government approval to manufacture peptides suitable for human clinical studies. There is a growing and profitable market in Australia and overseas for these peptides. The GMP facility has contributed strongly to the substantial increase in Net Profit after Tax to $106,560 as well as a 6% turnover improvement by the Auspep Group. The net cash provided by operating activities was $582,033 in 2007. This compares favourably with the prior year cash generated of $417,098. In prior years, the Auspep Group has had to fund the commissioning of the GMP facility from these strong operational cashflows. However in 2007, capital expenditure on the GMP facility has been greatly reduced. This has resulted in an increase in cash at bank to $673,053. After a period of consolidation, the Auspep Group is now poised for expansion of its manufacturing activities. The Auspep group expects to utilise its strong cashflows, in part, to fund relocation of its West Melbourne facility to Tullamarine and upgrade its equipment. This will capitalise on the synergies of a state of the art facility in a single location.
SDF's investment in ARA, a regional airport investment and management company, has increased in value over the last year. SDF owns 69% of the shares in ARA, which in turn owns 49% of the shares in Burnie Airport Corporation **("BAC")**. The remaining 51% is owned by the Burnie City Council. BAC owns 100% of the Burnie-Wynyard Airport in Northwest Tasmania. In December 2006, BAC completed the upgrading of its Airport Terminal at a cost of around $600,000. Regional Express **("REX")** and BAC have successfully partnered to service the air travel requirements of the North West region of Tasmania. REX has introduced additional flights and improved scheduling between Burnie – Wynyard and Melbourne to meet the demands created by the departure of Qantas in October 2007. SDF has been advised it will receive approximately $60,000 from BAC's 2006/07 surplus.
BAC has followed a consistent policy of optimising land values through rezoning and development to meet a growing demand for residential and industrial land. BAC has expectations for the expansion of its land sales programme in 2007/08.
The Board has evaluated several strategic alternatives for the corporate structure of SDF with the objective of maximising shareholder's wealth. During the period to the date of this report, the company offered an upward consolidation of the Auspep Group into SDF. Unfortunately due to the disappointing response of Auspep shareholders, the Board has decided to consider alternative opportunities and not pursue this option. As part of this continuing process, the Board is evaluating the benefits to shareholders of continued compliance with the PDF Act. The Venture Capital Registration Board has granted an extension of SDF's PDF status until 11 May 2008.

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

Yours sincerely

Legh Davis
Chairman

STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES
ABN 093 639 064

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STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES

DIRECTORS' REPORT

Your directors present their report on the company and its controlled entities for the financial year ended 30 June 2007.

Directors

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

Legh Hewitson Davis (appointed 30/07/02), Chairman since 30/6/2005
John Andreas Nissen (appointed 5/07/00)
Peter King (appointed 5/07/00 and resigned 1/08/07)
Michael David McDonald (appointed 5/07/00)
Dr Andrew Ludekens (appointed 8/12/03)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Principal Activities

The principal activities of the economic entity during the financial year were:

Acting as a PDF providing financial and management support for investee companies of SDF.

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

- The improved revenue and operational cashflow from the manufacture of synthetic peptides at Auspep's TGA accredited GMP facility in Tullamarine.
- The successful partnership between Burnie Airport Corporation and Regional Express (REX) to meet the demands for travel to the North West region of Tasmania following the departure of Qantas.
- The completion of an upgrade to the Airport Terminal at Burnie Wynyard costing approximately $600,000.

Results from Operations

The consolidated loss of the economic entity for the financial year after providing for income tax and eliminating outside equity interests amounted to $21,348 (2006: Loss $372,457).

Review of Operations

A review of the economic entity's operations and results during the financial year found that it continued to engage in its principal activity, the results of which are disclosed in the attached financial statements.

SDF has two major investments. They are Auspep Holdings Limited and Australian Regional Airports Pty Ltd.

Auspep Holdings Limited ("AHL")

The Auspep group of companies, ("Auspep Group") is a leading Australian manufacturer and distributor of synthetic peptides for both *in vitro* and *in vivo* scientific research and commercial drug development. Today, this Australian owned company is an active participant in the custom peptide synthesis industry in Australia as well as establishing itself as a leading manufacturer of value added GMP grade product domestically and overseas.

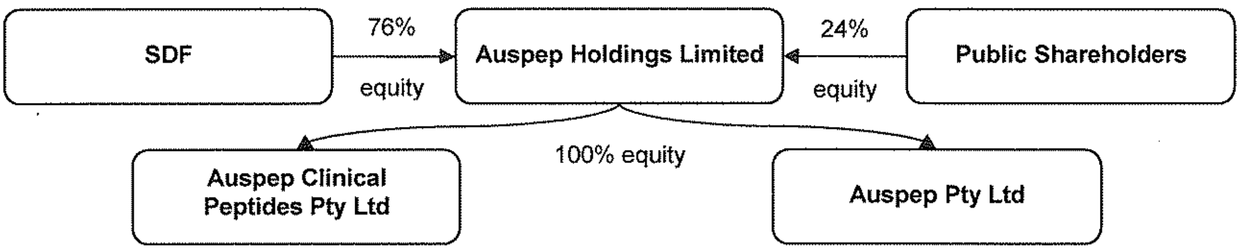
Synthetic peptides are important to the rapidly growing biotechnology industry. They are in high demand for use in both research and commercial drug development, including testing as potential pharmaceuticals in human clinical trials and testing new hormones and vaccines for use with animals. Where peptides show therapeutic benefits, they can be developed into drugs.

DIRECTORS' REPORT (Cont'd)

Potential applications of therapeutic peptides include the treatment of cancer, diabetes, osteoporosis and more rapid repair of human wounds and tissues. Peptides are promising drug candidates because they are potent, specific and have low toxicity.

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

Figure 1: Auspep Shareholding Structure



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

Established in 1986, Auspep has assembled a team of skilled professionals at its manufacturing and administration complex in Tullamarine and 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 and supplying high quality peptides. Auspep's customer base includes major Australian and international Universities and Research Institutes, Biotech and Pharmaceutical companies.

In April 2006 Auspep was granted approval from the Therapeutic Goods Administration to produce peptide Active Pharmaceutical Ingredients (API). Manufacturing to the code of Good Manufacturing Practice ("GMP") at a purpose built facility at Tullamarine, these products are suitable for human clinical trial or as pharmaceutical raw materials. The board of Auspep intends to fully exploit the significant opportunity opened up by granting of this GMP accreditation, as the market for GMP quality peptides is growing and offers higher revenue opportunities when compared to non-GMP catalogue and custom peptides.

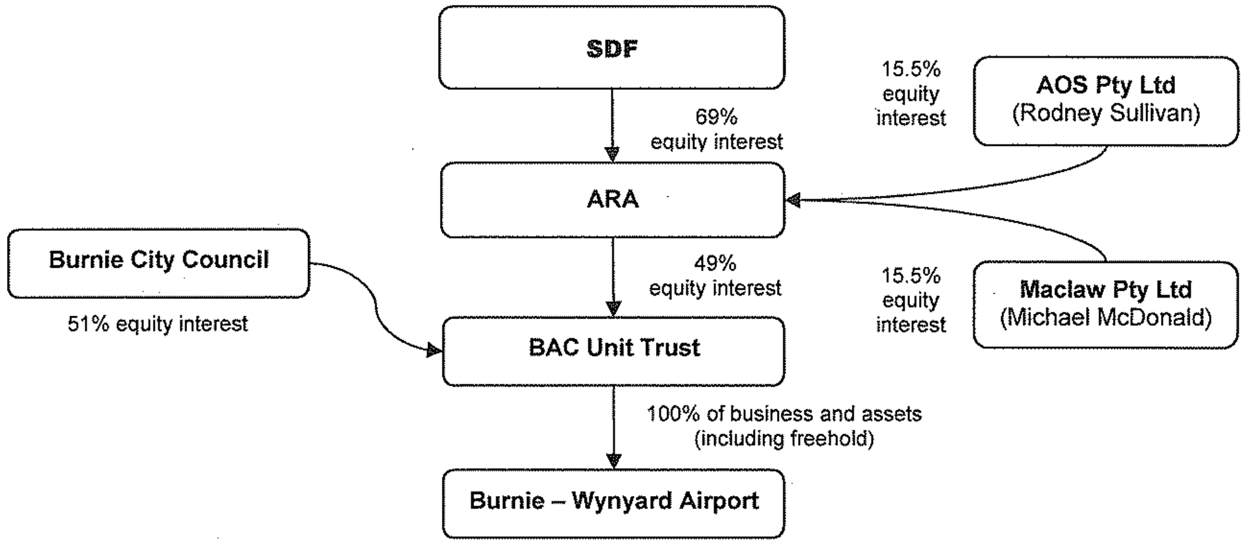
Australian Regional Airports Pty Ltd (ARA)

Prior to 1987, the Commonwealth Government owned regional airports. Pursuant to a divestment plan known as the Local Ownership Plan, the Commonwealth has been divesting its interest in regional airports by granting ownership of them to Local Councils and Port Authorities. This process has seen a fragmentation of the skills required to operate and manage these airports with only a few of the airports enjoying significant success. The Local Councils and Port Authorities have acknowledged difficulties in the proactive management of regional airports.

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

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

Figure 2: ARA Shareholding Structure



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

Revenue of BAC is generated from passenger and freight levies, landing charges and property management and development. The Burnie-Wynyard Airport comprises approximately 223 hectares of land, all of which was rezoned for industrial use as an outcome of the Waratah-Wynyard planning scheme review. BAC has designated 64.61 hectares of this land for immediate industrial development. The following are major developments:

Financial Position

The net assets of the consolidated entity at 30 June 2007 are $8,360,562 (2006: $8,355,240).

Significant Changes in State of Affairs

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

- The improved revenue and operational cashflow from the manufacture of synthetic peptides at Auspep's TGA accredited GMP facility in Tullamarine.
- The successful partnership between Burnie Airport Corporation and Regional Express (REX) to meet the demands for travel to the North West of Tasmania following the departure of Qantas.
- The completion of an upgrade to the Airport Terminal at Burnie Wynyard costing approximately $600,000.

Changes in Controlled Entities and Divisions:

There have been no changes in Controlled Entities and Divisions.

After Balance Date Events

No other matters or circumstances have arisen since the end of the financial year which have significantly affected or may significantly affect the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity in future financial years.

Future Developments, Prospects and Business Strategies

The Board of SDF in conjunction with the director's of its investee companies are seeking to maximise the opportunities in their respective investments.
The Board of Auspep is seeking to capitalise on the synergies of a single state of the art manufacturing facility in Tullamarine by transferring the operations of West Melbourne to Tullamarine and upgrading its equipment. Continued emphasis will be placed on expanding the throughput of the GMP facility to exploit the competitive advantage of being Australia's first GMP facility for the manufacture of synthetic peptides. During 2006/7, BAC will be seeking to further develop land for resale.
BAC will continue to develop and divest its holdings of residential and industrial land over the coming year while maintaining and expanding the Burnie Wynyard airport facility.
The Board has evaluated several strategic alternatives for the corporate structure of SDF with the objective of maximising shareholder's wealth. During the period to the date of this report, the company offered an upward consolidation of the Auspep Group into SDF. Unfortunately due to the disappointing response of Auspep shareholders, the Board has decided to consider alternative opportunities and not pursue this option. As part of this continuing process, the Board is evaluating the benefits to shareholders of continued compliance with the PDF Act. The Venture Capital Registration Board has granted an extension of SDF's PDF status until 11 May 2008

Environmental Issues

The economic entity complies with all significant regulations in relation to its disposal of waste materials as regulated under Commonwealth or of a State or Territory law.

Information on Directors

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

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

Mr Davis was elected to represent the Liberal Party in the Legislative Council in 1979 and retired at the South Australian State Election held in February 2002. During his term in Parliament he was Deputy Leader of the Opposition in the Legislative Council and was party spokesman in a number of portfolio areas.

After lecturing in Law and Economics at the South Australian Institute of Technology,(now University of SA), Mr Davis became an Investment Advisor with AC Goode and Co. and was appointed State Manager in 1978. He remained there until 1990, when he became a consultant to Todd Partners, now a part of the ABN AMRO Morgans national network. Mr Davis is a former State President of the Securities Institute of Australia.

John Andreas Nissen

Mr Nissen has over 30 years experience in stockbroking, beginning his career with Geoffrey Webb & Co in Melbourne, which subsequently merged with Potter Partners, and is now a part of UBS Warburg. After international experience in London, Mr Nissen became a partner of McCaughan Dyson and Company for 5 years. During this time he was involved in the establishment of the corporate finance department at McCaughan Dyson, which specialised in capital raising and initial public offerings. McCaughan Dyson was acquired by the ANZ Banking Group in 1989, now ANZ Securities Limited.
Since 1989, Mr Nissen has been involved in the resort hospitality industry. He is involved in the management of three timeshare resorts in Australia with a combined ownership base of approximately 8,000 members.

Mr Nissen is a director of ARA and a director and minority shareholder of Auspep Holdings Ltd.

Michael David McDonald, BA, LL.B

Mr McDonald is the principal of the Melbourne law firm, McDonald and Associates. He practises in commercial, intellectual property and trade practices law, specialising in licensing and commercialisation of intellectual property.

Mr McDonald has also had legal experience in the aviation sector, acting for a major airport consultancy and a local government authority, specifically advising on the acquisition of a substantial regional airport.

In addition, Mr McDonald practises in Philippine law and served for five years as the Honorary Consul-General for the Philippines based in Victoria. He was also president of the Australia Philippines Business Council for 3 years from 1997 to February 2000.

Dr Andrew Ludekens MBBS ASIA

Dr Ludekens is a general practitioner who completed his medical studies at Melbourne University in 1993. He is currently Managing Director of Lotus Capital Group Pty Ltd, a private equity investment group of companies founded by Dr Ludekens, with interests in property development, property services, and Australian agribusiness.

Directorships of Other Listed Companies

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

Name:	**Company:**
John Nissen	Poltech International (2003-2005) Cendant Australasia Limited (2004)

Company Secretary

Peter J. Kral ACA, ACIS
Mr Kral is the company secretary and interim Chief Executive Officer.

Remuneration Report

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

Remuneration Policy

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

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

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

Remuneration Policy

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

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

Details of Remuneration for Year Ended 30 June 2007

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

	Short Term Employee Benefits: Cash, Salary, Fees and Commissions $	Post Employment Benefits: Superannuation Contribution $	Other Employee Benefits $	Termination Benefits $	Share Based Payment Options $	Total $
Directors						
L Davis Non-Executive Chairman	45,000(1)	-	-	-	-	45,000
J Nissen Non-Executive Director	60,000(2)	-	-	-	-	60,000
P King Non-Executive Director	-	-	-	-	-	-
M McDonald Non-Executive Director	-	-	-	-	-	-
A Ludekens Non-Executive Director	-	-	-	-	-	-
Executives						
C Chandler Managing Director Auspep Holdings	158,390	15,605	15,000	-	-	188,995
R Bothof General Manager Auspep Holdings	91,743	8,257	-	-	-	100,000
P J. Kral Interim CEO SDF	75,124	-	-	-	-	75,124
	430,257	**23,862**	**15,000**	**-**	**-**	**469,119**

(1) paid for eighteen months director's fees to 30 June 2007, taken as a contribution to Mr.Davis's superannuation fund by Auspep Holdings Ltd.
(2) paid for consulting and management services by Auspep Holdings Ltd.

DIRECTORS' REPORT (Cont'd)

Details of Remuneration for Year Ended 30 June 2006

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

	Short Term Employee Benefits: Cash, Salary, Fees and Commissions $	Post Employment Benefits: Superannuation Contribution $	Other Long Term Employee Benefits $	Termination Benefits $	Share Based Payment Options $	Total $
Directors						
L Davis	-	-	-	-	-	-
J Nissen	60,000(1)	-	-	-	-	60,000
P King	-	-	-	-	-	-
M McDonald	-	-	-	-	-	-
A Ludekens	-	-	-	-	-	-
Executives						
R Payne (2)	137,997	13,872	-	-	-	151,869
C Chandler	150,000	14,850	-	-	-	164,850
R Bothof	76,552	8,065	-	-	-	84,617
P J.Kral	12,800	-	-	-	-	12,800
	437,349	**36,787**	-	-	-	**474,136**

(1) paid for consulting and management services by Auspep Holdings Pty Ltd.
(2) CEO of SDF until 28/4/06

Performance Income as a Proportion of Total Remuneration

Executive directors and executives are paid performance based bonuses based on set monetary figures, rather than proportions of their salary. This has led to the proportions of remuneration related to performance varying between individuals. The remuneration committee has set these bonuses to encourage achievement of specific goals that have been given a high level of importance in relation to the future growth and profitability of the economic entity. The remuneration committee will review the performance bonuses to gauge their effectiveness against achievement of the set goals, and adjust future years' incentives as they see fit, to ensure use of the most cost effective and efficient methods. During the 30 June 2007 and 30 June 2006 years no bonuses have been paid.

Employment Contracts of Directors and Senior Executives

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

Shareholdings of Directors and Executives

	Opening balance 1 July 2006	Granted as remuneration	On exercise of Options	Net Change other	Closing Balance 30 June 2007
Directors					
L Davis	16,000	-	-	-	16,000
J Nissen	10,001,400	-	-	(3,351,400)(iv)	6,650,000 (i)
M McDonald	1,820,000	-	-	-	1,820,000 (ii)
P King	5,001,400	-	-	(1,751,400) (iv)	3,250,000 (iii)
A Ludekens	2,000,000	-	-	(2,000,000)	-
Executives					
C Chandler	-	-	-	-	-
P J. Kral	-	-	-	-	-

(i) 6,650,000 shares are beneficially held in the name of William and John Nissen (A.T.F. Nissen Superfund A/C).
(ii)1,820,00 shares are beneficially held in the name of Maclaw Pty Ltd (A.T.F. M&D Mc Donald Superannuation Fund).
(iii)3,250,000 shares are beneficially held in the name of Natine Investments Pty Ltd (A.T.F. Emlion Holdings Superannuation Fund).
(iv)Messrs Nissen and King were deemed have an interest in 3,502,800 shares held in the name of Rhys Securities Pty Ltd. As announced to the BSX, these interests were distributed to the respective individual's superannuation funds prior to 30 June 2007, resulting in a reduction in their combined holdings.

All shareholdings are for ordinary shares in State Development Fund Limited. All equity transactions with specified directors and executives other than those arising from the exercise of remuneration options have been entered into under the terms and conditions no more favourable that those the entity would have adopted if dealing at arms length. The shareholdings in the above table remain unchanged at the date of this report

Option Holdings of Specified Directors and Specified Executives

No options have been or are on issue during the year or since year end up to the date of this report.

Meetings of Directors

During the financial year, 13 meetings of directors (including committees of directors) were held. Attendances by each director during the year were:

	Directors' Meetings		Committee Meetings			
			Audit Committee (1)		Remuneration and Nomination Committee (1)	
	Number Eligible to Attend	Number Attended	Number Eligible to Attend	Number Attended	Number Eligible to Attend	Number Attended
Directors						
L Davis	13	13	-	-	-	-
J Nissen	13	12	-	-	-	-
M McDonald	13	5	-	-	-	-
P King	13	13				
A Ludekens	13	12	-	-	-	-

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

Indemnifying Officers or Auditor

During or since the end of the financial year the company has given an indemnity or entered an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

The company has entered into an agreement to indemnify directors and officers of SDF against any liability arising from claims brought by a third party against the company.

The company has paid premiums to insure all directors and officers of SDF against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director of the company, other than conduct involving a wilful breach of duty in relation to the company. The terms of the policy prevent disclosure of the amount of the premium.

Options

No options over issued shares or interests in the economic entity were granted by the company during or since the end of the financial year.

Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

Non-Audit Services

The board of directors is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the Board of Directors prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and CPA Australia's APES110 "Code of Ethics for Professional Accountants".

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

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2007 has been received and can be found on page 11.

Corporate Governance and Best Practice

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

Due to SDF's commitment to fulfilling its corporate governance guidelines, the company obtained an Australian Financial Services Licence. In line with the Australian Securities and Investment Commissions implementation of the Financial Services Reform ("FSR") regime, Pooled Development Funds ("PDF's") are held to be specialist investment companies where the Board is empowered to make investment decisions on behalf of its shareholders. Although there is no specific AFS licence for a PDF, SDF is confident that the Corporations Act (PF209, clause 1) defines PDF's as providing financial product advice in securities as well as dealing in financial products by issuing, applying for, acquiring, varying or disposing of securities. An AFS Licence is required when a company gives financial product advice and/or deals in financial products.

In relation to its obligations both to the requirements of the AFS license and to good corporate governance, the Board has created an Audit and Compliance Committee, a Remuneration and Nomination Committee, Risk Management policies, Organisational Expertise processes, outsourcing arrangements, Human Resources policies and Financial Management policies. The committees mentioned are guided by their individual Charters in conjunction with the constitution of the company.

The Audit and Compliance Committee has authority to investigate any activity of the company and its subsidiaries. The primary objective of the committee is to assist the Board to discharge its responsibilities, in particular, with regard to facilitating the independence and completeness of the external audit process, compliance to requirements of the BSX listing rules, Corporations Act and PDF Act, and directing the internal audit function ensuring maximum value for the company. The Charter sets out specific responsibilities delegated by the board to the Audit and Compliance Committee and provides support for the manner in which the Committee will operate. The committee consists of two independent directors and the company secretary.

Similarly, the Remuneration and Nomination Committee has been developed to assist the Board in particular with regard to advising on nominations for Directorship appointments and ensuring that appropriate procedures exist to assess the performance and remuneration levels of all Board members and management. The committee consists of two independent directors, the company secretary and an external compliance consultant.

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

Legh Davis

L Davis
Chairman and Director

Dated this 26 day of September 2007

STAT05/AUD

PKF

Chartered Accountants
& Business Advisers

AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF STATE DEVELOPMENT FUND LIMITED

As lead auditor for the audit of State Development Fund Limited for the year ended 30 June 2007, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of State Development Fund Limited and the entities it controlled during the year.

R A Dean
Partner
PKF
Chartered Accountants

26 September 2007
Melbourne

Tel: +61 3 9603 1700 | Fax: +61 3 9602 3870 | www.pkf.com.au
Victorian Partnership | ABN 56 527 914 493
Level 14 | 140 William Street | Melbourne | Victoria 3000 | Australia
GPO Box 5099 | Melbourne | Victoria 3001

STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES

INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2007

	Note	Economic Entity		Parent Entity	
		2007	**2006**	**2007**	**2006**
		$	**$**	**$**	**$**
Revenue	2	**3,160,605**	3,025,771	**145,209**	79,179
Expenses	3	**(2,959,944)**	(3,143,321)	**(248,615)**	(362,832)
Depreciation and amortisation expenses	3	**(233,081)**	(211,941)	**(1,590)**	(4,329)
Finance costs	3	**(13,678)**	(57,907)	-	(41,246)
Share of Net Profit of associate accounted for using the equity method	9	**92,384**	-	-	-
Profit/(Loss) before income tax expense		**46,286**	(387,398)	**(104,996)**	(329,228)
Income tax benefit/(expense)	4	**(40,964)**	18,083	-	-
Profit/(Loss) after income tax benefit		**5,322**	(369,315)	**(104,996)**	(329,228)
Attributable to:					
Equity holders of the Parent		**(21,348)**	(372,457)	-	-
Outside Equity Interests		**26,670**	3,142		
		5,322	(369,315)	**(104,996)**	(329,228)
Basic and diluted earning per share - cents	23	**(.0654)**	(1.14)	-	-

The accompanying notes form part of these financial statements.

STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES

BALANCE SHEET
AS AT 30 JUNE 2007

	Note	Economic Entity 2007 $	Economic Entity 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
CURRENT ASSETS					
Cash and cash equivalents	5	**719,080**	253,310	**28,366**	95,951
Trade and other receivables	6	**272,873**	224,832	**218,000**	175,474
Inventories	7	**171,743**	220,073	**-**	-
TOTAL CURRENT ASSETS		**1,163,696**	698,215	**246,366**	271,425
NON-CURRENT ASSETS					
Other financial assets	8	**-**	-	**4,803,250**	4,803,250
Investments accounted for using the equity method	9	**4,013,792**	4,013,792	**-**	-
Property, plant and equipment	10	**867,285**	1,084,350	**-**	1,334
Intangibles	11	**4,092,063**	4,092,063	**-**	-
Deferred tax assets	12	**88,124**	61,569	**-**	-
TOTAL NON-CURRENT ASSETS		**9,061,264**	9,251,774	**4,803,250**	4,804,584
TOTAL ASSETS		**10,224,960**	9,949,989	**5,049,616**	5,076,009
CURRENT LIABILITIES					
Trade and other payables	13	**586,896**	362,313	**156,272**	77,669
Financial liabilities	14	**22,436**	21,334	**-**	-
Provisions	15	**87,557**	92,676	**-**	-
Tax Liabilities	16	**62,849**	16,314	**-**	-
TOTAL CURRENT LIABILITIES		**759,738**	492,637	**156,272**	77,669
NON-CURRENT LIABILITIES					
Deferred tax liabilities	16	**968,485**	968,485	**-**	-
Financial liabilities	14	**18,099**	39,492	**-**	-
Provisions	15	**118,076**	94,135	**-**	-
TOTAL NON-CURRENT LIABILITIES		**1,104,660**	1,102,112	**-**	-
TOTAL LIABILITIES		**1,864,398**	1,594,749	**156,272**	77,669
NET ASSETS		**8,360,562**	8,355,240	**4,893,344**	4,998,340
SHAREHOLDERS EQUITY					
Share Capital	17	**6,600,557**	6,600,557	**6,600,557**	6,600,557
Asset revaluation reserves		**1,559,261**	1,559,261	**-**	-
Accumulated losses		**(1,743,781)**	(1,722,433)	**(1,707,213)**	(1,602,217)
TOTAL PARENT ENTITY INTEREST		**6,416,037**	6,437,385	**4,893,344**	4,998,340
TOTAL MINORITY INTEREST	18	**1,944,525**	1,917,855	**-**	-
TOTAL EQUITY		**8,360,562**	8,355,240	**4,893,344**	4,998,340

The accompanying notes form part of these financial statements.

STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES

STATEMENT OF CHANGES IN EQUITY
AS AT 30 JUNE 2007

	Economic Entity						Parent Entity		
	Attributable to Equity Holders of the Parent								
	Contributed Equity $	Accumulated Losses $	Asset Revaluation Reserve $	Total $	Minority Interest $	Total Equity $	Contributed Equity $	Accumulated Losses $	Total Equity $
Balance as at 30 June 2005	6,600,557	(1,349,976)	1,559,261	6,809,842	1,914,713	8,724,555	6,600,557	(1,272,989)	5,327,568
Profit/(Loss) for the period	-	(372,457)	-	(372,457)	3,142	(369,315)	-	(329,228)	(329,228)
Balance as at 30 June 2006	6,600,557	(1,722,433)	1,559,261	6,437,385	1,917,855	8,355,240	6,600,557	(1,602,217)	4,998,340
Profit/(Loss) for the period	-	(21,348)	-	(21,348)	26,670	5,322	-	(104,996)	(104,996)
Balance as at 30 June 2007	6,600,557	(1,743,781)	1,559,261	6,416,037	1,944,525	8,360,562	6,600,557	(1,707,213)	4,893,344

The accompanying notes form part of these financial statements.

STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2007

	Note	Economic Entity		Parent Entity	
		2007	**2006**	**2007**	**2006**
		$	**$**	**$**	**$**
CASH FLOW FROM OPERATING ACTIVITIES					
Receipts from customers and others		**3,477,044**	3,423,505	**98,877**	-
Payments to suppliers and employees		**(2,984,730)**	(3,575,891)	**(210,012)**	(593,401)
Interest received		**4,167**	20,027	**3,806**	19,179
Borrowing costs		**(13,678)**	(57,907)	**-**	(41,246)
Income tax paid		**(20,985)**	-	**-**	-
Distribution received		**-**	139,848	**-**	-
Net cash provided by/(used) in operating activities	19(b)	**461,818**	(50,418)	**(107,329)**	(615,468)
CASH FLOW FROM INVESTING ACTIVITIES					
Payment for property, plant and equipment		**(15,761)**	(395,028)	**(256)**	(893)
Payment for investments		**-**	(139,848)	**-**	-
Net cash used in investing activities		**(15,761)**	(534,876)	**(256)**	(893)
CASH FLOW FROM FINANCING ACTIVITIES					
Repayments of borrowings		**(20,287)**	(15,850)	**-**	-
Amounts advanced by related parties		**40,000**	-	**40,000**	-
Net cash/provided by/(used in) financing activities		**19,713**	(15,850)	**40,000**	-
Net increase/(decrease) in cash held		**465,770**	(601,144)	**(67,585)**	(616,361)
Cash at the beginning of the financial year		**253,310**	854,454	**95,951**	712,312
Cash at the end of the financial year	19(a)	**719,080**	253,310	**28,366**	95,951

The accompanying notes form part of these financial statements.

INTRODUCTION

The financial report covers State Development Fund Limited for the year ended 30 June 2007 as an individual parent entity and State Development Fund Limited and controlled entities as an economic entity. State Development Fund Limited is a company limited by shares, incorporated and domiciled in Australia.

The registered office and principal place of business is Suite 122D, 530 Little Collins Street, Melbourne, Victoria. The principal activity of the economic entity during the financial year was acting as a PDF providing financial and management support for its investee companies. The financial statements are presented in Australian dollars.

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards ("AIFRS"). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ("IFRS").

The financial report has been prepared on a going concern and an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) Principles of Consolidation

A controlled entity is any entity controlled by State Development Fund Limited. Control exists where State Development Fund Limited has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with State Development Fund Limited to achieve the objectives of State Development Fund Limited. Details of the controlled entities are contained in Note 20.

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

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

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

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

(b) Impairment

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

(c) Significant Judgements and Key Assumptions

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

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

(d) Investments in Subsidiaries

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

(e) Investments in Associates

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

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

(f) Property, Plant and Equipment

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

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

Class of Fixed Asset	Depreciation Rates	Depreciation Basis
Leasehold Improvements	Term of lease	Straight Line
Plant and Equipment	13%-20%	Straight Line
Motor Vehicles	22.5%	Diminishing Value

Impairment

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

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

(f) Plant and Equipment (Cont'd)

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

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

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

(g) Goodwill

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

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

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

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies.
Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.
Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

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

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

(h) Employee Benefits

Provision is made for the economic entity's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year together with benefits arising from wages and salaries, annual leave and sick leave, which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled plus related on-costs. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Contributions are made by the economic entity to an employee superannuation fund and are charged as expenses when incurred.

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

(i) Cash and Cash Equivalents

For the purposes of the Cash Flow Statement, cash includes cash on hand and at call deposits with banks or financial institutions, investments in money market instruments maturing within less than two months and net of bank overdrafts.

(j) Revenue

Revenue is recognised under the following conditions:
Revenue from the sale of goods is recognised upon the delivery of goods to customers.
Revenue from the delivery of a service is recognised upon the delivery of the service to the customers.
Interest revenue is recognised on a proportional basis taking into account the interest rate applicable to the financial assets.

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

(k) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense. Receivables and payables in the Balance Sheet are shown inclusive of GST.

(l) Borrowing Costs

Borrowing costs are recognised as an expense in the year in which they are incurred except borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period to get ready for its intended use or sale. In this case the borrowing costs are capitalised as part of the cost of the asset.

(m) Leases

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased property, without transferring the legal ownership, and operating leases under which the lessor effectively retains substantially all the risks and benefits.

Where assets are acquired by means of finance leases, the present value of minimum lease payments is established as an asset at the beginning of the lease term and amortised on a straight line basis over the expected economic life. A corresponding liability is also established and each lease payment is allocated between such liability and interest expense.

Operating lease payments are charged to expense on a basis, which is representative of the pattern of benefits derived from the leased property.

(n) Income Taxes

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

- the tax consequences of recovering (settling) all assets (liabilities) are reflected in the financial statements;
- current and deferred tax is recognised as income or expense except to the extent that the tax relates to equity items or to a business combination;

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

(n) Income Taxes

- a deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available to realise the asset;
- deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled.

(o) Foreign Currency Translation and Balances

(i) Translation of Foreign Currency Transactions

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

At each balance sheet date:

(a) foreign currency monetary items are reported using the closing rate;

(b) non-monetary items which are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and

(c) non-monetary items which are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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

(ii) Translation of the Financial Statements of Foreign Operations

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

(a) assets and liabilities at the closing rate at the balance sheet date.

(b) income and expense items at exchange rates at the dates of the transactions; and

(c) all resulting exchange differences recognised as a separate component of equity.

(p) Trade and Other Receivables

Trade accounts receivable, amounts due from related parties and other receivables represent the principal amounts due at balance date plus accrued interest and less, where applicable, any unearned income and provisions for doubtful accounts. The collectability of debts is assessed at balance date.

(q) Trade and Other Payables

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

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

(r) Inventories

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

(s) New and Revised Accounting Standards and Interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2007 reporting periods. The Company's assessments of the impact of these new standards and interpretations is set out below.

AASB 7 Financial Instruments: Disclosures and AASB 2005-10 Amendments to Australian Accounting Standards (AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038).

AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. The company has not adopted the standards early. Application of the standards will not have an impact on the amounts recognised in the financial statements, however will impact the type of information in relation to the company's financial instruments.

STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	$	$	$	$
NOTE 2: REVENUE				
- Sales Revenue	**3,114,584**	2,951,240	**-**	-
- Interest	**4,167**	20,027	**3,806**	-
- Net foreign currency gain	**-**	23,991	**-**	-
- Other revenue	**41,854**	30,513	**141,403**	79,179
	3,160,605	3,025,771	**145,209**	79,179
NOTE 3: PROFIT/LOSS				
Profit/Loss before income tax expense has been determined after charging:				
Cost of sales	**1,873,614**	1,961,350	**-**	-
Consulting, accounting and audit fee	**126,993**	53,578	**67,900**	53,578
Employee benefits expense not included in cost of sales	**709,679**	650,308	**75,124**	164,669
Rental expense on operating leases	**166,895**	33,697	**24,909**	21,798
Exchange Loss	**20,247**	5,269	**-**	-
Other operating costs	**62,516**	439,119	**80,682**	122,787
	2,959,944	3,143,321	**248,615**	362,832
Finance costs:				
- other persons	**13,678**	57,907	**-**	41,246
Depreciation of non-current assets:	**233,081**	211,941	**1,590**	4,329
Employee Benefit expense	**1,256,744**	1,096,391	75,124	150,797
Defined Contribution Superannuation contribution	**99,023**	108,417	-	13,872
	1,355,767	1,204,808	75,124	164,669
NOTE 4: INCOME TAX EXPENSE				
Major components of income tax expense for the years ended 30 June 2007 and 2006 are:				
Current income tax expense	**67,519**	16,314	**-**	-
Over provision in prior period	**-**	(24,445)	**-**	-
Changes in temporary differences	**(26,555)**	(9,952)	**-**	-
	40,964	(18,083)	**-**	-
The prima facie tax payable on profit/(loss) before income tax is reconciled to the income tax expense as follows:				
Prima facie income tax payable on profit/(loss) before income tax at:-				
- 15%	**(16,320)**	(52,261)	**(16,320)**	(52,261)
- 25%	**952**	4,795	**952**	4,795
- 30%	**45,385**	24,669		-
Add:				
Losses not brought to account	**14,241**	22,880	**15,368**	47,466
Tax effect of:				
Other non-allowable items	**1,590**	1,467	**-**	-
Unbooked tax losses of overseas subsidiaries utilised	**(4,884)**	-		
Over provisions from prior year	**-**	(19,633)	**-**	-
Income tax expense/(benefit) attributable to profit	**40,964**	(18,083)	**-**	-

NOTE 4: INCOME TAX EXPENSE (CONT'D)

The tax rates used in the above reconciliation are the corporate tax rates applicable to the Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

PDF Status

The PDF board has advised that to maintain its PDF status after 11 May 2008 the company will need to dispose of its interest in BAC. The directors are reviewing the company's options in this matter.

Tax Consolidation

Relevance of tax consolidation to the consolidated entity

The subsidiary, Auspep Holdings Limited, and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Auspep Holdings Limited. The members of the tax-consolidated group are Auspep Holdings Ltd, Auspep Pty Ltd and Auspep Clinical Peptides Pty Ltd.

		Economic Entity		Parent Entity	
		2007	2006	2007	2006
		$	$	$	$
Deferred tax asset arising from tax losses not recognized at balance date as the directors are not satisfied that the timing of the benefits are certain enough to regard realisation of the benefit as probable.		**216,019**	201,778	**213,111**	197,743
NOTE 5: CASH AND CASH EQUIVALENTS					
Cash at bank		**719,080**	253,310	**28,366**	95,951
NOTE 6: RECEIVABLES					
CURRENT					
Trade Debtors		**143,560**	197,633	**198,000**	154,626
Sundry Debtors		**129,313**	27,199	**20,000**	20,848
		272,873	224,832	**218,000**	175,474
NOTE 7: INVENTORY					
CURRENT					
Raw materials		**38,705**	50,381	-	-
Work in progress		**60,058**	76,128	-	-
Finished goods		**72,980**	93,564	-	-
		171,743	220,073	-	-
NOTE 8: INVESTMENTS					
Auspep Holdings Limited – at cost	20	-	-	**3,803,250**	3,803,250
Australian Regional Airports Pty Ltd – at cost	20	-	-	**1,000,000**	1,000,000
		-	-	**4,803,250**	4,803,250

NOTE 9: INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD

Interest in Associate	Balance Date	Ownership Interest held by Consolidated Entity 2007 %	2006 %	Economic Entity 2007 $	2006 $
Burnie Airport Corporation Pty Ltd as Trustee for the Burnie Airport Corporation Unit Trust	**30 June**	**49%**	49%	**4,013,792**	4,013,792

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

	Economic Entity 2007 $	2006 $	Parent Entity 2007 $	2006 $
Movement in Carrying Amounts of Investments in Associates				
Beginning of year	**4,013,792**	4,013,792	-	-
Share of associates net profit	**92,384**	-	-	-
Distributions Received/Receivable	**(92,384)**	(139,848)	-	-
Distributions Reinvested	**-**	139,848	-	-
Closing Value	**4,013,792**	4,013,792	-	-
Share of Associates Assets and Liabilities				
Current assets	**264,803**	580,703	-	-
Non-current assets	**4,831,637**	4,545,611	-	-
Current liabilities	**(74,688)**	(84,998)	-	-
Non-current liabilities	**(1,011,720)**	(1,031,712)	-	-
Net Assets	**4,010,032**	4,009,604	-	-
Retained profits of the consolidated entity attributable to associate				
Balance at the beginning of financial year	**3,760**	143,608	-	-
Share of associates net profit	**92,384**	-	-	-
Distributions received/receivable from associate	**(92,384)**	(139,848)	-	-
Balance at end of the financial year	**3,760**	3,760	-	-
Reserves of the consolidated entity attributable to associate				
Balance at the beginning of the financial year	**3,228,284**	3,228,284	-	-
Share of associates reserves	**-**	-	-	-
Balance at the end of the financial year	**3,228,284**	3,228,284	-	-

STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	$	$	$	$
NOTE 10: PLANT AND EQUIPMENT				
Motor Vehicles				
At Cost	**82,580**	106,268		-
Less Accumulated Depreciation	**(35,939)**	(37,539)		-
	46,641	68,729		-
Leasehold Improvements				
At Cost	**299,965**	299,965		-
Less Accumulated Depreciation	**(104,283)**	(59,289)		-
	195,682	240,676		-
Plant and Equipment				
At Cost	**2,091,820**	2,076,059	**14,433**	14,433
Less Accumulated Depreciation	**(1,466,858)**	(1,301,114)	**(14,433)**	(13,099)
	624,962	774,945	-	1,334
TOTAL PLANT & EQUIPMENT				
At Cost	**2,474,365**	2,482,292	**14,433**	14,433
Less Accumulated Depreciation	**(1,607,080)**	(1,397,942)	**(14,433)**	(13,099)
	867,285	1,084,350	-	1,334

Movements in Carrying Amounts
Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the year.

	Economic Entity 2007	Economic Entity 2006	Parent Entity 2007	Parent Entity 2006
MOTOR VEHICLES				
Balance at beginning of year	**68,729**	49,796	-	-
Additions	-	33,253	-	-
Depreciation expense	**(22,088)**	(14,320)	-	-
Carrying amount at end of year	**46,641**	68,729	-	-
LEASEHOLD IMPROVEMENTS				
Balance at beginning of year	**240,676**	230,673	-	-
Additions	-	54,314	-	-
Depreciation expense	**(44,994)**	(44,311)	-	-
Carrying amount at end of year	**195,682**	240,676	-	-
PLANT AND EQUIPMENT				
Balance at the beginning of the year	**774,946**	587,542	**1,334**	4,770
Additions	**15,761**	335,714	-	893
Depreciation expense	**(165,745)**	(148,310)	**(1,334)**	(4,329)
Carrying amount at end of year	**624,962**	774,946	-	1,334

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	$	$	$	$
NOTE 11: INTANGIBLE ASSET				
Goodwill				
Balance at the beginning of the financial year	**4,092,063**	4,092,063	-	-
Balance at the end of the financial year	**4,092,063**	4,092,063	-	-

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

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

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

$654,724 of the goodwill relates to the investment in Australian Regional Airports Pty Ltd. The carrying amount of goodwill is allocated to the cash-generating unit of the company. A discount rate of 10% has been applied to the cash flow projections. The cash flow projections are based on management's five-year budget/forecast experiences.

	Economic Entity 2007 $	Economic Entity 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
NOTE 12: TAX ASSETS				
The deferred tax asset consists of:				
Accruals	**2,400**	3,600	-	-
Provisions	**80,027**	62,044	-	-
Foreign exchange transactions	**5,697**	(4,075)	-	-
	88,124	61,569	-	-
NOTE 13: TRADE AND OTHER PAYABLES				
CURRENT				
Trade creditors	**253,234**	214,835	**116,272**	39,030
Advance from related parties	**40,000**	-	**40,000**	-
Sundry Creditors	**293,662**	147,478	-	38,639
	586,896	362,313	**156,272**	77,669
NOTE 14: FINANCIAL LIABILITIES				
CURRENT				
Secured liabilities				
Hire Purchase Liabilities	**22,436**	21,334	-	-
	22,436	21,334	-	-
NON-CURRENT				
Secured liabilities			-	-
Hire Purchase liabilities	**18,099**	39,492	-	-
NOTE 15: PROVISIONS				
CURRENT				
Employee benefits	**87,557**	92,676	-	-
NON-CURRENT				
Employee benefits	**118,076**	94,135	-	-
Aggregate employee benefits	**205,633**	186,811	-	-
Average number of employees at year end	**15**	19	-	1

	Economic Entity 2007 $	Economic Entity 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
NOTE 16: TAX LIABILITY				
CURRENT				
Tax liability	**62,849**	16,314	-	-
NON-CURRENT				
Deferred tax liabilities	**968,485**	968,485	-	-
NOTE 17: SHARE CAPITAL				
The company has unlimited authorised capital with no par value.				
32,634,000 ordinary shares fully paid (2006:32,634,000)	**6,600,557**	6,600,557	**6,600,557**	6,600,557

There are no restrictions on distribution of dividends and repayment of capital.

	Economic Entity 2007 $	Economic Entity 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
NOTE 18: MINORITY INTERESTS				
Contributed equity	**1,232,199**	1,232,199		
Reserves	**700,538**	700,538		
Retained Profits/(Accumulated losses)	**11,788**	(14,882)		
Outside equity interest	**1,944,525**	1,917,855		

NOTE 19: CASH FLOW INFORMATION

(a) Reconciliation of cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows:

	Economic Entity 2007 $	Economic Entity 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
Cash at bank	**719,080**	253,310	**28,366**	95,951
	719,080	253,310	**28,366**	95,951

(b) Reconciliation of cash flow from operations with profit/(loss) after income tax

	Economic Entity 2007 $	Economic Entity 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
Profit/(Loss) after income tax	**5,322**	(369,315)	**(104,996)**	(329,228)
- Depreciation	**233,081**	211,941	**1,590**	4,329
- Share of Associates Profits	-	139,848	-	-
- Gain/(loss) on disposal of Asset	**(255)**	-	-	-
- Decrease/(increase) in Receivables	**(48,041)**	162,920	**(42,526)**	(56,473)
- Increase/(decrease) in Payables	**184,579**	(146,210)	**38,603**	(230,430)
- (Increase)/decrease in Inventory	**48,330**	(66,412)	-	-
- Decrease in tax liabilities	**(26,555)**	-	-	-
- Increase/(decrease) in employee provisions	**18,822**	(9,952)	-	-
- Increase/(decrease) in provisions for income tax	**46,535**	26,762	-	(3,666)
Cash flow from/(used in) operations	**461,818**	(50,418)	**(107,329)**	(615,468)

(c) The economic entity acquired plant and equipment with an aggregate fair value of NIL (2006: $33,253) by means of hire purchase.

NOTE 20: CONTROLLED ENTITIES

State Development Fund Limited – Ultimate parent entity.

Subsidiary:	Auspep Holdings Limited
Country of incorporation:	Australia
Percentage owned:	76% (2006 - 76%)

Controlled Entities of Auspep Holdings Limited:

Auspep Pty Ltd	Australia	100%
Auspep LLC	USA	100%
Auspep Clinical Peptides	Australia	100%

Subsidiary:	Australian Regional Airports Pty Ltd
Country of incorporation:	Australia
Percentage owned:	69% (2006 – 69%)

STATE DEVELOPMENT FUND LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 21: SEGMENT REPORTING

BUSINESS SEGMENTS

	PDF Activities		Airport Management		Peptide Manufacturing		Eliminations		Total	
	2007 $	2006 $	2007 $	2006 $	2007 $	2006 $	2007 $	2006 $	2007 $	2006 $
Revenue										
External Sales	-	-	9,000	160,848	3,105,584	2,930,240	-	(139,848)	3,114,584	2,951,240
Inter-segment Sales	-	-	-	-	-	-	-	-	-	-
Total Revenue	-	-	9,000	160,848	3,105,584	2,930,240	-	(139,848)	3,114,584	2,951,240
Other Income	145,209	79,179	-	76	39,013	55,276	(141,403)	(60,000)	42,819	74,531
Share of net profit of Associates	-	-	92,384	-	-	-	-	-	92,384	-
Total segment revenue	145,209	79,179	101,384	160,924	3,144,597	2,985,516	(141,403)	(199,848)	3,249,787	3,025,771
Result										
Segment Results	(104,996)	(329,228)	3,758	81,952	106,560	17,808	-	(139,847)	5,322	(369,315)
Depreciation	1,590	4,329			231,491	207,612			233,081	211,941
Assets										
Segment Assets	5,049,616	5,076,009	898,290	813,531	5,065,691	4,794,086	(788,637)	(733,637)	10,224,960	9,949,989
Investment in equity accounted associate – included in segment assets	-	-	4,013,792	4,013,792	-	-	-	-	4,013,792	4,013,792
Acquisition of non current assets	-	892	-	-	15,761	394,136	-	-	15,761	395,028
Liabilities										
Segment liabilities	156,272	77,767	250,183	169,183	687,454	522,409	770,485	825,390	1,864,394	1,594,749

GEOGRAPHICAL SEGMENTS

The economic entity operates predominantly in Australia. Peptide manufacturing sales are made in a number of overseas markets however no individual market is currently a significant portion of the business.

NOTE 22: EXPENDITURE COMMITMENTS

	Economic Entity 2007 $	Economic Entity 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
Non-cancellable rental operating leases contracted for but not capitalised in the financial statements:				
Payable				
- no later that one year	**90,800**	90,800	-	-
- later than one year but no later than five years	**391,268**	391,268	-	-
- later than five years	**229,767**	320,567	-	-
	711,835	802,635	-	-

NOTE 23: EARNINGS PER SHARE

	Economic Entity 2007	Economic Entity 2006
Net Profit/(Loss)	**5,322**	(369,315)
Net Profit/(Loss) attributable to outside equity interest	**(26,670)**	(3,142)
Earnings used to calculate basis and diluted earnings per share	**(21,348)**	(372,457)
Weighted average number of ordinary shares used in calculating basic and diluted earning per share	**32,634,000**	32,634,000

NOTE 24: AUDITOR'S REMUNERATION

	Economic Entity 2007 $	Economic Entity 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
Audit and Review Fees	**56,628**	66,045	**29,650**	29,650
Other Services				
- tax return and consulting services	**30,342**	25,000	**25,000**	25,000
- forecasting model	-	6,000	-	-
	86,970	97,045	**54,650**	54,650

NOTE 25: RELATED PARTY DISCLOSURES

Directors
The Directors of the Company during the year were:

Legh Davis
Dr. Andrew Ludekens
Peter King
Michael McDonald
John Nissen

Director-Related Entity Transactions
Current directors have each loaned $10,000 to SDF. The loan of $40,000 in total, is to fund the short term liquidity of SDF. The terms and conditions of the loan are that it will be either repaid by SDF on an interest free basis or converted into equity at the director's discretion. The conversion into equity must be approved by members at a general meeting and at a price on par with the next round of capital raising.

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

Other Related Party Transactions
Management Fee Income – A management fee of $50,000 was charged by State Development Fund Limited during the year to Australian Regional Airport Pty Ltd (2006: $60,000). At 30 June 2007, ARA owed the company $198,000 (2006: $143,000)
During the year Auspep Holdings Ltd paid State Development Fund $51,403 related to external corporate advice that SDF had paid on behalf of Auspep Holdings Ltd and $40,000 (2006 $Nil) for management services.

Director-Related Entity Transactions

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

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	$	$	$	$
NOTE 26: STANDBY ARRANGEMENTS AND CREDIT FACILITIES				
The economic entity has access to:				
Bank Overdraft Facility	**100,000**	100,000	-	-
Amount of facility used	-	-	-	-
Amount of facility unused	**100,000**	100,000	-	-

NOTE 27: NON-HEDGED FOREIGN CURRENCY BALANCES

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

	Economic Entity 2007	Economic Entity 2006	Parent Entity 2007	Parent Entity 2006
$US				
Bank	**65,254**	17,657	-	-
Trade Debtors	**23,947**	157,892	-	-
Trade Creditors	**8,913**	7,448	-	-

NOTE 28: KEY MANAGEMENT PERSONNEL COMPENSATION

The following table discloses the aggregate of key management compensation.

	Economic Entity		Parent Entity	
	2007	**2006**	**2007**	**2006**
	$	**$**	**$**	**$**
Short-term employee benefits	**560,257**	437,349	**75,124**	150,797
Superannuation Contributions – Defined contribution funds	**23,862**	36,787	**-**	13,872
Total remuneration	**584,119**	474,136	**75,124**	164,669

Details of key management personnel remuneration are disclosed in the Director's Report accompanying the financial report.

NOTE 29: INTEREST RATE RISK EXPOSURE

(a) Interest Rate Risk

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

	Weighted Average Interest Rate		Variable Interest		Non-Interest Bearing		Fixed Interest				Total	
							1 Year or Less		1 to 5 Years			
	2007 %	2006 %	2007 $	2006 $	2007 $	2006 $	2007 $	2006 $	2007 $	2006 $	2007 $	2006 $
Financial Assets:												
Cash	0.5%	0.5%	719,080	253,310	-	-	-	-	-	-	719,080	253,310
Accounts Receivable			-	-	272,873	224,832	-	-	-	-	272,873	224,832
Total Financial Assets	-	-	**719,080**	**253,310**	**272,873**	**224,832**	**-**	**-**	**-**	**-**	**991,953**	**478,142**
Financial Liabilities:												
Accounts Payable	-	-	-	-	586,892	362,313	-	-	-	-	586,892	362,313
Borrowings	8.2%	8.2%	-	-	-	-	22,436	21,334	18,099	39,492	40,535	60,826
Total Financial Liabilities			**-**	**-**	**586,892**	**362,313**	**22,436**	**21,334**	**18,099**	**39,492**	**627,427**	**423,139**

Credit Risk

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

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

(b) Net Fair Values

The aggregate net fair values of financial assets and liabilities are the same as the carrying amounts.

(c) Credit Risk

The maximum credit risk exposure is represented by the carrying amounts of assets. There is no significant credit risk exposure.

DIRECTORS' DECLARATION

The directors of State Development Fund Limited declare that:

(a) in their opinion the accompanying financial statements and notes have been prepared in accordance with the Corporations Act 2001, comply with Accounting Standards and Corporations Regulations and give a true and fair view of the company's and the consolidated entity's financial position as at 30 June 2007 and of their performance and cash flows for the financial year ended on that date;

(b) directors have been given the declarations by the Chief Executive Officer and the Chief Financial Officer required by Section 295A; and

(c) in the directors opinion, at the date of this declaration there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

Legh Davis
Director and Chairman

Dated this 26 day of September 2007

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF STATE DEVELOPMENT FUND LIMITED

PKF

Chartered Accountants
& Business Advisers

We have audited the accompanying financial report of State Development Fund Limited, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's Opinion

In our opinion:

(a) the financial report of State Development Fund Limited is in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

(b) the consolidated financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Auditor's Opinion on the AASB 124 Remuneration Disclosures Contained in the Directors' Report

In our opinion the remuneration disclosures that are contained in the directors' report and identified as being subject to audit comply with Accounting Standard AASB 124.

PKF

PKF
Chartered Accountants

R A Dean
Partner

26 September 2007
Melbourne

STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES

SHAREHOLDERS' INFORMATION
AS AT 5 September 2007

Total Issued Capital		**32,634,000**
Distribution of Shareholdings	**Holders**	**Shares**
1– 1,000	0	0
1,001– 5,000	8	30,300
5,001– 10,000	42	351,000
10,001– 100,000	40	1,272,700
100,001 and over	14	30,980,000
Total number of shareholders	**104**	**32,634,000**

Voting Rights: One vote for each ordinary share held

Shareholders holding less than a marketable parcel	0
Number of restricted securities on issue	0
Number of unquoted securities (options)	0
Number of holders of unquoted securities (options)	0

Top 10 Shareholders	**Number**	**% Issued Capital**
Nefco Nominees Pty Ltd	6,500,000	19.91
ANZ nominees Pty Ltd	6,000,000	18.39
Nissen Family Superfund A/C	5,000,000	18.38
Emlion Holdings Superfund A/C	3,250,000	9.96
Lotus Capital Holdings Pty Ltd	2,400,000	7.35
M&D McDonald Superfund A/C	1,820,000	5.58
Prime Endeavour Pty Ltd	1,650,000	5.06
Ms Wendy Ogler	1,600,000	4.90
Mr Issy Lissek	1,600,000	4.90
Moonlight Investments Pty Ltd	500,000	1.53
Top 10 Total	30,320,000	92.91
Remainder	2,314,000	7.09
Total	**32,634,000**	**100.00**