



21 November 2007

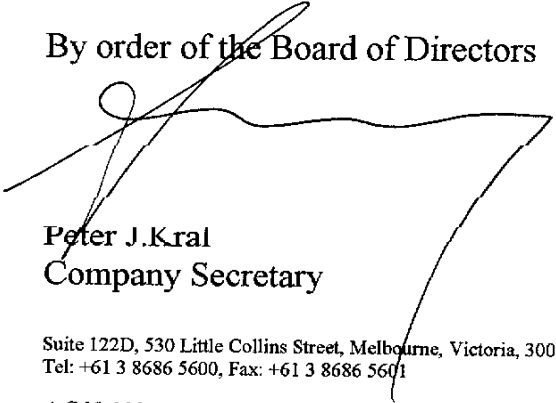
Company Announcements Office  
Bendigo Stock Exchange  
PO Box 191  
Flinders Lane, Melbourne  
Vic 8009

By fax: 02-49291556

RE; Announcement by State Development Fund Limited

Please find attached the Chairman's address for the Annual General Meeting of State Development Fund Limited, being held this afternoon at 4.30pm at 15 Marengo Drive, Tullamarine.

By order of the Board of Directors



Peter J. Kral  
Company Secretary

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

## ***Chairman's Address to the State Development Fund Annual General Meeting 2007***

This is the Annual General Meeting of State Development Fund Limited for the year ending 30 June 2007.

State Development Fund is a pooled development fund listed on the Bendigo Stock Exchange. Over the past two years your directors have focussed their efforts on growing the value of State Development Fund's two existing investments. These are Auspep Holdings Limited and Australian Regional Airports.

In 2002, State Development Fund (SDF) acquired a 69% interest in Australian Regional Airports Pty Ltd (ARA). ARA holds a 49% interest in Burnie Airport Corporation (BAC) with the Burnie City Council owning the other 51%. The Burnie-Wynyard Airport complex is in the North West of Tasmania.

SDF also has a 76% interest in Auspep. Auspep is an established Australian manufacturer and distributor of synthetic peptides. Auspep's Tullamarine facility is Australia's first Good Manufacturing Practice facility dedicated to the manufacture of synthetic peptides. The facility has been accredited by the Therapeutic Goods Administration which gives Auspep government approval to manufacture peptides for human clinical studies.

Auspep was granted TGA accreditation in May 2006. This accreditation has contributed strongly to the substantial increase in 2006/7 net profit after tax of \$106,560 as well as a 6% turnover improvement. This has justified the commitment of the Board of Auspep and SDF to the commissioning of the GMP facility. After this period of consolidation, the Auspep Group is now poised for expansion of its manufacturing activities. Auspep funded the commissioning of the GMP facility from the strong operational cashflows generated over the past few years. While the requirement for capital expenditure in the 2008 financial year on the GMP facility has been greatly reduced, the Board is now focussing on the expansion of its manufacturing capacity by the relocation of the West Melbourne facilities to Tullamarine, upgrading its equipment and expansion of its workforce to cope with the expected turnover increase. The Board believes this will capitalise on the synergies of a modern facility in a single location. Auspep is actively pursuing the optimum mix of gearing and equity to raise working capital to achieve this expansion.

The key measure of Burnie Airport's performance is the number of passengers that use this airport each year. The passenger numbers for 2007 were adversely affected by the Qantas withdrawal in July 2006 from servicing several key regional airports around Australia. The passenger numbers for 2007 fell by 5% to 87,621. This reflected the transition to Regional Air Express (Rex) which also operated out of Burnie-Wynyard. In the transition period from 1 August 2006 to 9 October 2006 passenger numbers were down 10% on the previous year. However, for the first quarter ended 30 September 2007 passenger numbers have increased by 3,963 or 20% over the previous year. In October 2007, 8,174 passengers went through BAC's airport terminal. This was the best result for

the month of October since 1998. Management expectations are that the total number of passengers for the financial year ended 30 June 2008 will exceed the previous period by 10%. This increase is due to Rex committing to introducing more flights and improved scheduling for services between Burnie-Wynyard and Melbourne. To cope with the increase in these expected passenger number increases, BAC completed its Terminal upgrade at a cost of around \$600,000 during the 2007 financial year. Despite the downturn in passenger numbers SDF expects to receive approximately \$60,000 from BAC's 2006/07 surplus.

During the 2007 financial year, BAC has pursued a strategy of maximising the value of its land holdings through rezoning and development to meet a growing demand for residential and industrial land. Of the 223 hectares of land at the airport complex nearly 65 hectares is designated for immediate industrial development. SDF has the expectation of significant proceeds from land sales being received in the 2008 financial year.

As advised in the Annual Report, the value of BAC's Burnie-Wynyard airport assets is \$8.4 million which is a significant appreciation on the \$2.5m purchase price.

Recently, State Development Fund offered two of its shares for each of Aussep's share which it did not already own. The objective was to simplify the corporate structure of both SDF and Aussep as well as reduce administrative costs. Unfortunately there was a disappointing reaction to this offer from the Aussep shareholders. The Board of SDF has resolved 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. As part of this process the Venture Capital Registration Board has granted an extension of SDF's PDF status until May of next year.

Dr Andrew Ludekens has advised me that he does not wish to stand for re-election as a director of SDF. Andrew has cited personal commitments and a burgeoning medical practice as the key drivers for this decision. I would like to take the opportunity to thank Andrew on behalf of my fellow directors for his tireless dedication to our company during his tenure as director.

Legh Davis  
Chairman, State Development Fund Limited