

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES
ABN 093 639 064**

**FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2004**

Chairmans Letter

30th September 2004

I welcome the opportunity to present to shareholders of State Development Fund Limited ("**SDF**") the annual report for the financial year ended 30 June 2004.

SDF is a Pooled Development Fund, aiming to maintain a portfolio of diverse investments displaying strong potential for capital growth, and which have business plans with a clear path to profitability. SDF has devoted its efforts in this financial year to expanding its business through careful and prudent management of its existing investments, Auspep and ARA, and developing potential acquisitions in the future.

Investee Companies

SDF has seen its investment in Australian Regional Airports Pty Ltd ("**ARA**"), a regional airport investment and management company, increase in value. SDF owns 69% of the shares in ARA, which in turn owns 49% of the shares in Burnie Airport Corporation ("**BAC**"), which owns 100% of the Burnie Wynyard airport in northwest Tasmania. For the year ended 30 June 2004, the BAC Unit Trust recorded \$1.111m in sales revenue and a net profit before distributions of \$182,299, a 19% increase over the previous corresponding period. A total of 96,397 passengers passed through the Burnie Wynyard airport, retaining its 28% share of airport passenger numbers for all Tasmanian airports.

In addition, SDF has subscribed to 90% of the shares in Auspep Holdings Pty Ltd, which owns 100% of Auspep Pty. Ltd. ("**Auspep**"), an established Australian manufacturer and distributor of synthetic peptides. This company has developed to the point where the Board of SDF has publicly announced that it will seek ASX listing later in this financial year.

Auspep will commission a Good Manufacturing Plant ("**GMP**") facility at Tullamarine Victoria from the funds raised through listing. This plant will produce synthetic peptides for use in clinical trials. Currently, there is no GMP facility in Australia specialising in the manufacture of peptides.

Corporate Governance

SDF recognises that good corporate governance is fundamental to managing a successful business. Consequently, the company has applied for an Australian Financial Services Licence in line with the Australian Securities and Investment Commissions implementation of its 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. The Board of SDF endorses this reform.

The Board of SDF will investigate additional investments, which are consistent with SDF's investment philosophy and ultimately realise the value of its investments through appropriate and timely exit strategies.

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

Yours sincerely

A handwritten signature in blue ink, appearing to read 'LM Muir', with a long, flowing horizontal stroke extending to the right.

LM Muir
Chairman

STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES
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TABLE OF CONTENTS

Directors' Report	1
Financial Report	
Statement of Financial Performance	10
Statement of Financial Position	11
Statement of Cash Flows	13
Notes to the Financial Statements	14 – 32
Directors' Declaration	33
Independent Auditors Report	34
Shareholder Information	35

**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 2004.

Directors

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

Sir Laurence MacDonald Muir (Appointed 30/7/2002)
Michael McDonald (Appointed 5/7/2000)
John Nissen (Appointed 5/7/2000)
Peter King (Appointed 5/7/2000)
Legh Davis (Appointed 30/7/2002)
Dr Andrew Ludekens (Appointed 8/12/2003)

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

Sir Laurence MacDonald Muir, VRD, LLB, FSIA, FAIM – Chairman

Age – 79

Sir Laurence was senior partner of Potter Partners, now UBS Warburg, before retiring after a 30-year career in the capital markets. Since retirement from Potter Partners, Sir Laurence has served on many corporate boards including the ANZ Banking Group Limited, The Herald and Weekly Times Limited, Alcoa of Australia Limited, National Commercial Union Limited, Australian Consolidated Industries Limited, Air Liquide Limited and Hudson Conway Limited. Sir Laurence is currently a member of the Boards of Publishing and Broadcasting Limited, Crown Limited and Focus Publishing Pty Ltd. He is Patron of the Baker Medical Research Institute, the Microsurgery Research Foundation and the Earthwatch Institute.

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

Age – 63

Mr Davis was elected to represent the Liberal Party in the Legislative Council in 1979 and retired at the South Australian State Election held in February 2002. During his term in Parliament he was Deputy Leader of the Opposition in the Legislative Council and was party spokesman in a number of portfolio areas. Mr Davis specialised in economic and financial issues and also small business. In this time, Mr Davis was the Presiding Member of the Statutory Authorities Review Committee.

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

Peter King, LL.B

Age – 67

Mr King was a partner with the Melbourne law firm, Home Wilkinson and Lowry, over a legal career spanning 25 years. His field of legal expertise was commercial, industrial, technology and international entertainment law. In 1985 he left the law to pursue business interests.

Mr King is an Executive Chairman of Rhys Capital Pty Ltd and a director and major shareholder of Rhys Securities Pty Ltd.

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

DIRECTORS' REPORT (Cont'd)

John Andreas Nissen

Age – 56

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 raisings and initial public offerings. McCaughan Dyson was acquired by the ANZ Banking Group in 1989, now ANZ Securities Limited.

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

Mr Nissen was a founding shareholder and director of Golf Australia Holdings Limited, is the Deputy Chair of Rhys Capital Pty Ltd, a director of ARA and a director and minority shareholder of Auspep Holdings.

Michael David McDonald, BA, LL.B

Age – 47

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 BMMS ASIA

Age – 35 (Appointed 8/12/2003)

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. He is also Managing Director of Diamond Property Services Pty Ltd, a commercial cleaning company that has been recognised by the Officeworks small business awards.

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 \$656,946.

Review of Operations

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

SDF completed its \$4.5 million investment in 90% of the capital of Auspep Holdings Limited in June 2004 and has this and a 69% equity interest in ARA, for which it has subscribed \$1,000,000, as its investments. SDF's current shareholding structure with ARA and Auspep Holdings are illustrated below.

SDF has raised approximately \$1,220,000 in the last financial year through private placement and elected Dr Andrew Ludekens to the Board of Directors. Dr Ludekens' experience in advances in biotechnology coupled with investment and corporate governance experience will be an asset to the Board.

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

DIRECTORS' REPORT (Cont'd)

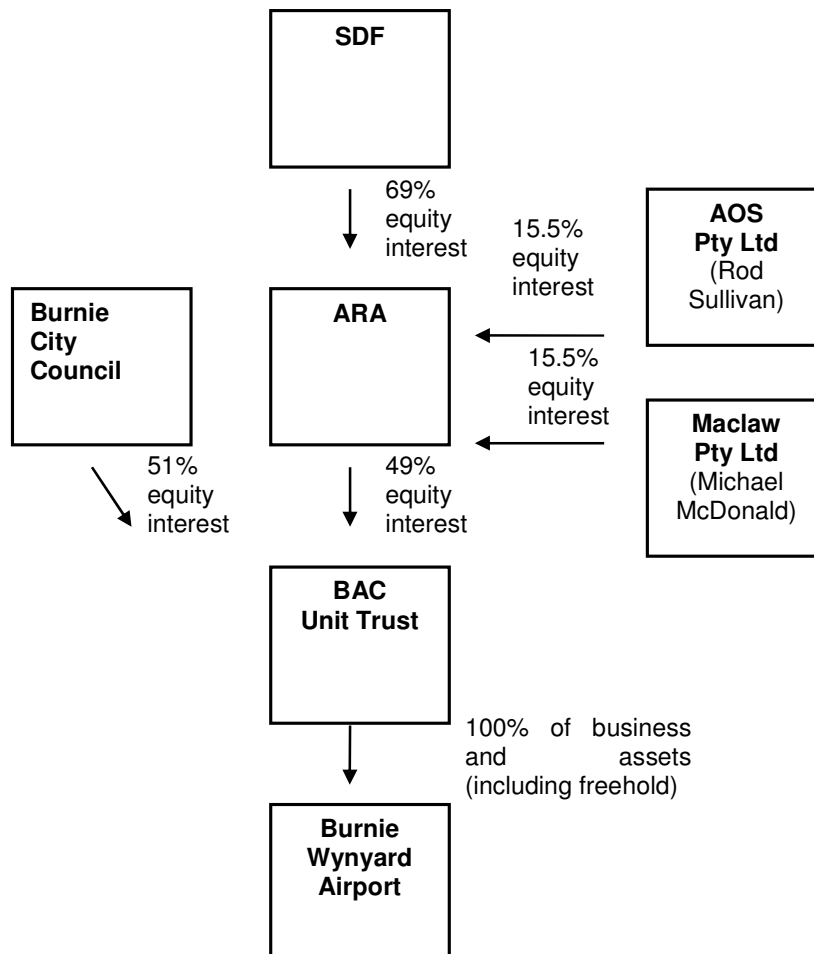
Review of Operations (Cont'd)

Due to SDF's commitment to fulfilling its corporate governance guidelines, the company applied for an Australian Financial Services Licence in the current financial period. 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.

Australian Regional Airports Pty Ltd

Figure 1 outlines SDF's ownership of 69% of ARA, which in turn owns 49% of the 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 the BAC Unit Trust. ARA is a company in which Mr Michael McDonald and Rodney Sullivan, through their related entities, are substantial shareholders. Mr McDonald is also a director and shareholder of SDF.

Figure 1 ARA Shareholding Structure



**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

DIRECTORS' REPORT (Cont'd)

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. This provides an opportunity for ARA with its aviation, corporate and property experience to fill the void left as a result of the Local Ownership Plan legacy.

The main drivers of regional airport revenues are increasing passenger numbers and aircraft movements. 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.

ARA (49%) and Burnie City Council (51%) formed a joint venture in the form of the Burnie Airport Corporation Unit Trust ("**BAC Unit Trust**") in 2001, which acquired the business and assets of the Burnie Wynyard Airport from the Burnie Port Corporation for \$2.5 million. This was purchased through equity and a debt facility for 5 years, provided by the National Australia Bank and supported by an independent mortgage valuation conducted by Colliers Jardine. ARA is responsible for providing management services to the BAC Unit Trust including a) Aviation advice and management; b) Property advice and management; and c) General commercial advice.

Revenue of the BAC Unit Trust 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 and 7.2 hectares for residential development subject to Council planning permission.

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 approximately 5 hectares of airport land provided by the BAC Unit Trust. Vestas commenced its nacelle (turbine framework) manufacturing operations during July 2003 under contract to the Hydro Electric Commission of Tasmania. Vestas, a company that installs wind power capacity on a global basis, also holds an option to purchase an additional 18.6 hectares of adjoining land from the BAC Unit Trust.

For the year ended 30 June 2004, the BAC Unit Trust recorded \$1.111m in sales revenue and a net profit before distributions of \$182,299, a 19% increase over the previous corresponding period. In the 2003/04 financial year, 92,650 regular passenger transport (RPT) passengers passed through the Burnie Wynyard airport along with an additional 3747 charter passengers, retaining its 28% share of airport passenger numbers for all Tasmanian airports. Subsequent to the 2003/2004 financial year an official valuation undertaken by Rawlinsons on behalf of BAC valued the airport activities alone of BAC at \$5.6 - \$5.8 million.

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

DIRECTORS' REPORT (Cont'd)

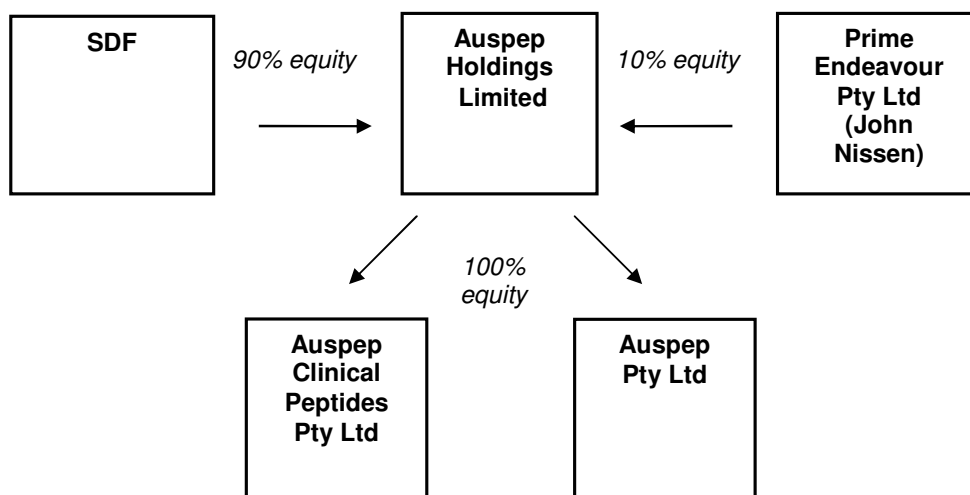
Auspep Holdings Limited

SDF has acquired 90% of the share capital in Auspep Holdings for \$4,500,000 as outlined in Figure 2.

Auspep was incorporated in December 1986. It is now wholly owned by Auspep Holdings that was incorporated on 20 January 2003. Mr John Nissen is a director and shareholder of both Auspep Holdings and SDF. He acquired a controlling interest in Auspep in 1989 and now holds 10% of Auspep Holdings' shares through a related entity. Auspep caters for the demands of the rapidly emerging market for synthetic biologically active peptides used in research and commercial drug development. Today, this Australian owned company is an active participant in the custom peptide synthesis industry in Australia and is exploring larger opportunities for value added GMP grade product here and overseas.

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.

Figure 2 Auspep Shareholding Structure



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

Auspep has assembled a team of skilled professionals at its manufacturing and administration complex in West Melbourne, Victoria. Auspep became certified to the ISO9002 quality system in 1996. This reinforced Auspep's commitment to a quality system that provides enhanced productivity, product quality and customer service. Auspep is recognised both locally and globally for its expertise in producing commercially viable peptides. Auspep's customer base includes major Australian Universities, the Garvin Institute, St Vincent's Hospital, Baker and Queensland Institutes of Medical Research, the Victor Chang Institute for Cardiac Research, Howard Florey Institute, Walter & Eliza Hall and Ludwig Institutes, Peptech Ltd, Biotech Australia Ltd, CSL Ltd and Amrad Ltd.

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

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

DIRECTORS' REPORT (Cont'd)

Auspep Holdings Limited (Cont'd)

The Board of Auspep is constructing a GMP accredited manufacturing facility to be completed by the end of 2004. This new plant is located on leased premises at Tullamarine in Victoria. If GMP accreditation is granted, this will have a significant positive effect on Auspep's business, as Auspep will then seek TGA, CEMark and FDA approvals for its peptide products. GMP approved peptides are a key driver of Auspep's growth as they enable peptides to be supplied for human clinical trials. The market for GMP quality peptides is growing and offers higher revenue opportunities when compared to non-GMP catalogue and custom peptides.

The other current objectives of the Board of Auspep are:

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

SDF's overall objective for Auspep is for Auspep to become a globally focused supplier of synthetic peptides for research and drug development. SDF announced to the market in August of 2004, that it will seek ASX listing for its subsidiary Auspep Holdings Limited. This listing is likely to happen in the first half of 2005.

Significant Changes in State of Affairs

Other than as referred to in the review of operations and the financial statements and notes there has been no other significant changes in the state of affairs of the economic entity during the financial year.

Principal Activities

The principal activities of the economic entity during the financial year were the provision of equity capital to certain eligible small and medium-sized Australian companies, in accordance with the provision of the PDF Act. No significant change in the nature of these activities occurred during the year.

After Balance Date Events

The Company is in the process of seeking ASX listing for its subsidiary Auspep Holdings Limited. Other than the above item, 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.

Remuneration of Directors and Executives

Directors

Disclosures relating to directors and executive emoluments have been included in Note 5 of the financial report.

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

DIRECTORS' REPORT (Cont'd)

INTERESTS OF DIRECTORS IN SHARES AND SHARE OPTIONS

Disclosures relating to directors and executive emoluments have been included in Note 5 of the financial report.

INTERESTS OF DIRECTORS IN SHARES AND SHARE OPTIONS

The number of directors meetings held during the financial period ended 30 June 2004

Directors	Number of Meetings held whilst a Director			Number of Meetings Attended			Years as a Director
	Directors	Audit & Compliance	Remuneration and Nomination	Directors	Auditors Compliance	Remuneration & Nomination	
L M Muir	11	1	1	11	1	1	2
L Davis	11	-	-	11	-	-	2
J Nissen	11	1	1	11	1	1	4
P King	11	-	-	10	-	-	4
M McDonald	11	-	-	5	-	-	4
A Ludekens	5	-	-	5	-	-	0.5

Number of Directors' Meetings held during the financial period: 11

Number of Audit and Compliance Committee Meetings held during the period: 1

Number of Remuneration and Nomination Committee Meetings held during the period: 1

Likely Developments

Other than the receipt of additional funds from the proposed divestment of a part of SDF's investment in Auspep by seeking its ASX listing as previously mentioned and gaining a full AFS licence, the directors are unable to define likely developments and future events, but continue to actively manage the investment portfolio on behalf of the shareholders with a view to maximising the returns on ultimate sale of the individual investments.

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.

Dividends Paid or Recommended

No dividends were paid or declared since the start of the financial year. No recommendation for payment of dividends has been made.

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. At the date of this report the unissued ordinary shares under option are as follows:

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

DIRECTORS' REPORT (Cont'd)

Executives:

	Number of options	Number of ordinary shares under option	Issuing entity
R Payne	1,000,000	1,000,000	State Development Fund Ltd

There were no options exercised during or since the end of the year.

Indemnification of Officer or Auditor

No indemnities have been given or insurance premiums paid, during or since the end of the financial year, for any person who is or has been an officer or auditor of the economic entity.

Proceedings on Behalf of the Economic Entity

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.

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 has applied for an Australian Financial Services Licence in the current financial period. 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.

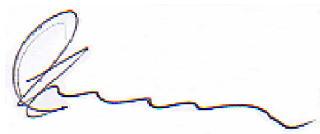
The Audit and Compliance Committee has authority to investigate any activity of the company and its subsidiaries. The primary objective of the committee is to assist the Board to discharge its responsibilities, in particular, with regard to facilitating the independence and completeness of the external 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.

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

DIRECTORS' REPORT (Cont'd)

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

A handwritten signature in blue ink, appearing to be 'L. Muir', is written over a faint, light blue grid background.

Chairman and Director

Sir Laurence Muir

Dated this 30th day of September 2004

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2004**

	Note	Economic Entity		Parent Entity	
		2004	2003	2004	2003
		\$	\$	\$	\$
Revenue from ordinary activities	2	2,785,619	269,800	3,788	71,565
Cost of sales		(1,715,422)	(157,863)	-	-
Administration expenses		(1,197,699)	(540,659)	(449,210)	(446,259)
Borrowing Costs		(4,446)	(1,380)	(989)	(1,380)
Marketing expenses		(550,435)	(48,507)	-	(3,710)
Occupancy expenses		(76,723)	(14,051)	(18,573)	-
Share of Net Profit of associate accounted for using the equity method		89,326	76,575	-	-
Loss from ordinary activities before income tax expense		(669,780)	(416,085)	(464,984)	(379,784)
Income tax benefit relating to ordinary activities	4	(14,897)	(1,400)	-	-
Loss from ordinary activities after related income tax benefit	3, 16	(654,883)	(414,685)	(464,984)	(379,784)
Net (profit)/loss attributable to outside equity interest		(2,063)	11,706	-	-
Total changes in equity other than those resulting from transactions with owners as owners attributable to members of State Development Fund Limited	16	(656,946)	(402,979)	(464,984)	(379,784)
Basic and diluted earning per share - cents	23	(2.19)	(4.6)		

The accompanying notes form part of these financial statements.

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2004**

	Note	Economic Entity		Parent Entity	
		2004	2003	2004	2003
		\$	\$	\$	\$
CURRENT ASSETS					
Cash assets	6	595,860	269,750	79,073	117,281
Receivables	7	589,851	413,458	318,400	77,000
Inventories		179,114	160,678	-	-
Prepayments		11,627	-	11,627	-
TOTAL CURRENT ASSETS		1,376,452	843,886	409,100	194,281
NON-CURRENT ASSETS					
Other financial assets	8	-	-	5,500,000	5,500,000
Investments accounted for using the equity method	9	1,185,349	1,054,998	-	-
Plant and equipment	10	533,802	338,812	7,545	4,087
Intangible assets	11	4,158,254	4,347,572	-	-
Deferred tax assets	4	51,250	66,749	-	-
TOTAL NON-CURRENT ASSETS		5,928,655	5,808,131	5,507,545	5,504,087
TOTAL ASSETS		7,305,107	6,652,017	5,916,645	5,698,368
CURRENT LIABILITIES					
Payables	12	672,695	399,151	381,553	141,006
Interest bearing liabilities	13	18,005	11,178	-	-
Provisions	14	114,279	75,421	27,915	-
Tax Liabilities	4	11,118	-	-	-
TOTAL CURRENT LIABILITIES		816,097	485,750	409,468	141,006
NON-CURRENT LIABILITIES					
Payables	12	-	132,139	-	632,139
Interest bearing liabilities	13	36,980	29,385	-	-
Provisions	14	27,106	20,874	-	-
TOTAL NON-CURRENT LIABILITIES		64,086	182,398	-	632,139
TOTAL LIABILITIES		880,183	668,148	409,468	773,145
NET ASSETS		6,424,924	5,983,869	5,507,177	4,925,223

The accompanying notes form part of these financial statements.

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2004**

	Note	Economic Entity		Parent Entity	
		2004	2003	2004	2003
		\$	\$	\$	\$
Parent Entity Interest					
Contributed equity	15	6,575,557	5,528,619	6,575,557	5,528,619
Asset revaluation reserve	16(a)	370,822	337,012	-	-
Accumulated losses	16(b)	(1,283,537)	(626,591)	(1,068,380)	(603,396)
TOTAL PARENT ENTITY INTEREST		5,662,842	5,239,040	5,507,177	4,925,223
TOTAL OUTSIDE EQUITY INTEREST	17	762,082	744,829	-	-
TOTAL EQUITY		6,424,924	5,983,869	5,507,177	4,925,223

The accompanying notes form part of these financial statements.

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2004**

	Note	Economic Entity		Parent Entity	
		2004	2003	2004	2003
		\$	\$	\$	\$
CASH FLOW FROM OPERATING ACTIVITIES					
Receipts from customers		3,137,021	249,520	-	-
Payments to suppliers and employees		(3,226,759)	(690,933)	(207,422)	(441,807)
Interest received		3,925	1,577	3,788	1,565
Borrowing Costs		(4,446)	-	(989)	-
Distribution Received		7,975	-	-	-
Income Tax Paid		(5,136)	-	-	-
Net cash used in operating activities	18 (b)	(87,420)	(439,836)	(204,623)	(440,242)
CASH FLOW FROM INVESTING ACTIVITIES					
Payment for property, plant and equipment		(249,615)	(2,270)	(6,984)	(1,864)
Payment for investments	18 (d)	-	(4,347,531)	-	(4,500,000)
Net cash used in investing activities		(249,615)	(4,349,801)	(6,984)	(4,501,864)
CASH FLOW FROM FINANCING ACTIVITIES					
Net proceeds from share issue		805,538	5,070,533	805,538	5,070,533
Repayments of borrowings		(142,393)	(12,891)	(632,139)	(12,891)
Net cash provided by financing activities		663,145	5,057,642	173,399	5,057,642
Net increase/decrease in cash held		326,110	268,005	(38,208)	115,536
Cash at the beginning of the financial year		269,750	1,745	117,281	1,745
Cash at the end of the financial year	18 (a)	595,860	269,750	79,073	117,281

The accompanying notes form part of these financial statements.

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers State Development Fund Limited as an individual 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 financial report has been prepared on 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 19.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation.

Where a controlled entity has entered or left the economic entity during the year its operating results have been included from the date control was obtained or until the date control ceased.

(b) Investments

Non-current investments are measured on the cost basis. The carrying amount of investments is reviewed annually by directors' to ensure it is not in excess of the recoverable amount of these investments. The recoverable amount is assessed by reference to the quoted market value for shares in listed companies or the underlying net assets for other non-listed corporations. The expected net cash flows from investments have not been discounted to their present value in determining the recoverable amounts.

(c) Investments in Associates

The equity method of accounting has been applied and recognised in the consolidated financial statements of the economic entity in relation to all associated companies. An associated company is a company over which State Development Fund Limited is able to exercise significant influence.

(d) Plant and Equipment

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

Plant and equipment

Plant and equipment is measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by the directors to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have not been discounted to present values in determining recoverable amounts.

Depreciation

The depreciable amount of all fixed assets including capitalised leased assets are depreciated over their estimated useful lives to the economic entity commencing from the time the asset is held ready for use. Properties held for investment purposes are not subject to a depreciation charge.

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004**

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

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

Class of fixed asset	Depreciation rates	Depreciation basis
Motor Vehicle	22.5%	Straight Line
Plant and Equipment	20-33 %	Straight Line
Laboratory Equipment	10-15 %	Straight Line
Furniture and Fittings	7.5-33%	Straight Line

(e) Goodwill

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net tangible assets at date of acquisition. Both purchased goodwill and goodwill on consolidation are amortised on a straight line basis over the period of 20 years. The balances are reviewed annually and any balance representing future benefits the realisation of which is considered to be no longer probable are written off.

(f) 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.

(g) Cash

For the purposes of the Statement of Cash Flows, 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.

(h) Revenue

Revenue from the rendering 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 rates applicable to the financial assets.

Other revenue is recognised when the right to receive the revenue has been established.

All revenue is stated net of the amount of goods and services tax (GST).

(i) 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 Statement of Financial Position are shown inclusive of GST.

(j) 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.

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004**

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

(k) 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.

(l) Income Tax

The economic entity adopts the liability method of tax-effect accounting whereby the income tax expense based on the profit from ordinary activities is adjusted for any permanent differences.

Timing differences, which arise due to the different accounting years in which items of revenue and expense are included in the determination of accounting profit and taxable income. These are brought to account either as provision for deferred income tax, or as an asset described as a future income tax benefit, at the rate of income tax applicable to the year in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond any reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit. The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income tax legislation, and the anticipation that the company will derive sufficient future assessable income and comply with the conditions of deductibility imposed by the law to permit a future income tax benefit to be obtained.

(m) Foreign Currency Translation and Balances

Foreign currency transactions during the year are converted to Australian currency at the rates of exchange applicable at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are converted at the rates of exchange ruling at that date.

The assets and liabilities of the overseas controlled entities are integrated foreign operations whereby monetary items are translated at exchange rates current at the transaction dates, or, where a non-monetary item has been revalued, at the exchange rate current at the date of revaluation. Exchange differences arising on translation are brought to account in the profit and loss account.

(n) 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.

(o) Accounts Payable

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

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004**

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

(p) Inventories

Inventories are measured at the lower of cost and net realizable value. Costs are assigned on a first-in first-out basis and include direct materials, direct labour and an appropriate share of variable and fixed overhead expenses. Fixed costs have been allocated on the basis of normal operating capacity.

Net realisable value is determined on the basis of the company's products selling patterns over the past year taking into consideration the minimum pack sizes required to meet normal catalogue requirements. Stock held surplus to these requirements at balance date is provided for in full although still being held in a saleable condition.

(q) Adoption of Australian Equivalents to International Financial Reporting Standards

Australia is currently preparing for the introduction of International Financial Reporting Standards (IFRS) effective for financial years commencing 1 January 2005. This requires the production of accounting data for future comparative purposes at the beginning of the next financial year.

The entity's management are assessing the significance of these changes and preparing for their implementation.

The directors are of the opinion that the key differences in the economic entity's accounting policies, which will arise from the adoption of IFRS are:

♦ **Impairment of Assets**

The entity currently determines the recoverable amount of an asset on the basis of undiscounted net cash flows that will be received from the assets use and subsequent disposal. In terms of the pending AASB 136: Impairment of Assets, the recoverable amount of an asset will be determined as the higher of fair value less costs to sell and value in use. It is likely that this change in accounting policy will lead to impairments being recognised more often than under the existing policy.

♦ **Goodwill on Consolidation**

Under the pending ASSB3: Business Combinations, goodwill is to be capitalised to the statement of financial position and subjected to an annual impairment test. Amortisation of Goodwill is to be prohibited. Current accounting policy of the entity is to amortise goodwill on a straight line basis over a period of twenty years.

♦ **Income Tax**

Currently, Auspep Holdings Limited adopts the liability method of tax-effect accounting whereby the income tax expense is based on the accounting profit adjusted for any permanent differences. Timing differences are currently brought to account as either a provision for deferred income tax or a future income tax benefit. Under the Australian equivalent of IAS 12, the entity will be required to adopt a balance sheet approach under which temporary differences are identified for each asset and liability rather than the effects of timing and permanent differences between taxable income and accounting profit.

(r) Comparative Figures

Where required by Accounting Standards comparative figures have been adjusted to conform with changes in presentation for the current financial year

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004**

NOTE 2: REVENUE

	Economic Entity		Parent Entity	
	2004	2003	2004	2003
	\$	\$	\$	\$
Operating activities				
- Sales Revenue	2,781,694	249,520	-	-
- Interest	3,925	1,565	3,788	1,565
- Other revenue	-	18,715	-	70,000
	<u>2,785,619</u>	<u>269,800</u>	<u>3,788</u>	<u>71,565</u>

NOTE 3: PROFIT FROM ORDINARY ACTIVITIES

Loss from ordinary activities before income tax expense has been determined after charging:

Depreciation of non-current assets:	79,303	11,824	3,526	1,390
Amortisation of non-current assets:				
- Goodwill	<u>219,714</u>	<u>16,308</u>	<u>-</u>	<u>-</u>

NOTE 4: INCOME TAX EXPENSE

The prima facie tax payable on loss from ordinary activities before income tax is reconciled to the income tax expense as follows:

Prima facie income tax payable/(benefit) on loss from ordinary activities before income tax at:

15% (2003: 15%)	(70,316)	(67,468)	(70,316)	(56,967)
30%	(60,302)	11,382	1136	-
	<u>(130,618)</u>	<u>(56,086)</u>	<u>(69,180)</u>	<u>(56,967)</u>

Add tax effect of permanent differences:

Share of associates net profit	(26,798)	(22,973)	-	-
Capital expenses	1,694	-	1,694	-
Amortisation of intangible assets	65,914	4,892	-	-
Other non-deducted items	2,928	3,917	315	-
Timing difference and tax losses not brought to account	<u>71,983</u>	<u>68,850</u>	<u>67,171</u>	<u>56,697</u>
	<u>(14,897)</u>	<u>(1,400)</u>		

Future income tax benefits arising from tax losses not recognized at balance date as realisation of the benefit is not recognized as virtually certain

<u>140,853</u>	<u>68,850</u>	<u>123,868</u>	<u>56,697</u>
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**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004**

NOTE 5: REMUNERATION AND RETIREMENT BENEFITS

This note disclosure on director and executive information has been prepared in accordance with the new Accounting Standard AASB 1046 "Directors and Executives Disclosures by Disclosing Entities"

a) Details of Specified Directors and Executives

Name of Individual	Position held	Period of responsibility if less than the full reporting period
Specific Directors:		
LM Muir	Chairman	-
L Davis	Deputy Chairman	-
J Nissen	Non Executive Director	-
P King	Non Executive Director	-
M McDonald	Non Executive Director	-
A Ludekens	Non Executive Director	From 8 December 2003
Specific Executives:		
R Payne	Chief Executive Officer SDF	-
C Chandler	Managing Director Auspep Holdings Limited	-

b) Remuneration of specified directors and specified executives

(i) The Remuneration and nomination committee of the Board of Directors of State Development Fund is responsible for determining and reviewing compensation arrangements for the directors, the chief executive officer and the executive team. The remuneration and nomination committee assesses the appropriateness of the nature and the amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

Such officers are given the opportunity to receive their base emolument in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue costs for the company.

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004**

NOTE 5: REMUNERATION AND RETIREMENT BENEFITS (Cont'd)

(ii) Remuneration of specified directors and specified executives

		Primary	Primary	Post	Equity	Equity	Other	
				Employment				Total
Specified Directors	Year	Salaries and Fees	Bonus	Superannuation	Shares	Options	Other Benefits	
L M Muir	2003	-	-	-	-	-	-	-
	2004	-	-	-	-	-	-	-
L Davis	2003	-	-	-	-	-	-	-
	2004	-	-	-	-	-	-	-
J Nissen	2003	-	-	13,487	136,373	-	-	149,860
	2004	-	-	-	-	-	-	-
P King	2003	-	-	13,487	136,373	-	-	149,860
	2004	-	-	-	-	-	-	-
M McDonald	2003	-	-	13,487	136,373	-	-	149,860
	2004	-	-	-	-	-	-	-
A Ludekens	2003	-	-	-	-	-	-	-
	2004	-	-	-	-	-	-	-
Total Remuneration	2003	-	-	40,461	409,119	-	-	449,580
	2004	-	-	-	-	-	-	-
Specified Executives								
R Payne	2003	134,681	-	13,320	-	28,333	-	176,334
	2004	147,030	50,000	21,963	-	20,000	-	238,993
C Chandler	2003	108,283	-	10,709	-	-	-	118,992
	2004	125,865	-	11,874	-	-	-	137,739
Total Remuneration	2003	242,964	-	24,029	-	28,333	-	295,326
	2004	272,895	50,000	33,837	-	20,000	-	376,732

c) Option holdings of specified directors and specified executives

	Opening balance 1 July 2003	Granted as remuneration	Options exercised	Net Change other	Closing balance 30 June 2004	Vested at period end	Not able to be exercised	Exercisable
Directors								
L M Muir	-	-	-	-	-	-	-	-
L Davis	-	-	-	-	-	-	-	-
J Nissen	-	-	-	-	-	-	-	-
P King	-	-	-	-	-	-	-	-
M McDonald	-	-	-	-	-	-	-	-
A Ludekens	-	-	-	-	-	-	-	-
Executives								
R Payne	1,000,000	-	-	-	1,000,000	333,333	666,667	333,333
C Chandler	-	-	-	-	-	-	-	-

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004**

NOTE 5: REMUNERATION AND RETIREMENT BENEFITS (Cont'd)

d) Shareholdings of specified directors and specified executives

	Opening balance 1 July 2003	Granted as remuneration	On exercise of Options	Net Change other	Closing Balance 30 June 2004
Directors					
L M Muir	-	-	-	24,000	24,000
L Davis	-	-	-	16,000	16,000
J Nissen	10,001,400 (i)	-	-	-	10,001,400
P King	5,001,400 (ii)	-	-	-	5,001,400
M McDonald	1,820,000 (iii)	-	-	-	1,820,000
A Ludekens	-	-	-	2,000,000	2,000,000
Executives					
R Payne	-	-	-	-	-
C Chandler	-	-	-	-	-

- (i) 5,000,000 shares have been beneficially held in the name of Prime Endeavour Pty Ltd. 3,502,800 shares have been held in the name of Rhys Securities Pty Ltd.
(ii) 3,502,800 shares have been held in the name of Rhys Securities Pty Ltd.
(iii) 1,200 shares have been beneficially held in the name of Maclaw Pty Ltd

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 than those the entity would have adopted if dealing at arms length.

e) Loans to specified directors and specified executives

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

f) Other transactions and balances with specified directors and specified executives

At 30 June 2003, the company owed Rhys Securities nil (2003:\$132,139). Rhys Securities is a company of which Mr P King and Mr J Nissen are directors. At 30 June 2004 the company owed LM Muir \$50,000 (2003: nil)

Note	Economic Entity		Parent Entity	
	2004	2003	2004	2003
	\$	\$	\$	\$

NOTE 6: CASH ASSETS

Cash at bank	595,860	269,750	79,073	117,281
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NOTE 7: RECEIVABLES

CURRENT

Trade Debtors	339,093	388,006	77,000	77,000
Sundry Debtors	250,758	25,452	241,400	-
	589,851	413,458	318,400	77,000

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004**

NOTE 8: INVESTMENTS

	Note	Economic Entity		Parent Entity	
		2004	2003	2004	2003
		\$	\$	\$	\$
Auspep Holdings Limited – at cost	19	-	-	4,500,000	4,500,000
Australian Regional Airports Pty Ltd – at cost	19	-	-	1,000,000	1,000,000
		-	-	5,500,000	5,500,000

NOTE 9: INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD

Interest in Associate	Balance Date	Ownership interest held by Consolidated entity		Economic Entity	
		2004	2003	2004	2003
		\$	\$	\$	\$
Burnie Airport Corporation Pty Ltd as Trustee for the Burnie Airport Corporation Unit Trust	30 June	49%	49%	1,185,349	1,054,998

Principal activity

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

	Economic Entity		Parent Entity	
	2004	2003	2004	2003
	\$	\$	\$	\$
Movement in carrying amounts of investments in associates				
Beginning of year	1,054,998	-	-	-
Acquisition through acquisition of entity	-	490,000	-	-
Revaluation of land and buildings	49,000	488,423	-	-
Share of Associates Net Profit	89,326	76,575	-	-
Distributions Received	(76,575)	-	-	-
Distributions Reinvested	68,600	-	-	-
Closing Value	1,185,349	1,054,998	-	-

Share of associates assets and liabilities

Current assets	215,699	251,566	-	-
Non-current assets	1,860,226	1,813,338	-	-
Current liabilities	(20,697)	(106,481)	-	-
Non-current liabilities	(869,829)	(980,000)	-	-
Net Assets	1,185,399	978,423	-	-

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004**

	Economic entity		Parent Entity	
	2004	2003	2004	2003
	\$	\$	\$	\$
NOTE 10: PLANT & EQUIPMENT				
Motor Vehicles Under Lease				
At Cost	95,165	70,487	-	-
Less Accumulated Depreciation	(35,443)	(23,477)	-	-
	<u>59,722</u>	<u>47,010</u>	<u>-</u>	<u>-</u>
Laboratory Equipment				
At Cost	1,186,314	1,182,398	-	-
Less Accumulated Depreciation	(972,260)	(913,587)	-	-
	<u>214,054</u>	<u>268,811</u>	<u>-</u>	<u>-</u>
Furniture and Fittings				
At Cost	373,740	149,622	-	-
Less Accumulated Depreciation	(125,151)	(134,097)	-	-
	<u>248,589</u>	<u>15,525</u>	<u>-</u>	<u>-</u>
Computer Hardware				
At Cost	8,694	6,104	-	-
Less Accumulated Depreciation	(4,802)	(2,725)	-	-
	<u>3,892</u>	<u>3,379</u>	<u>-</u>	<u>-</u>
Plant and Equipment				
At Cost	12,461	5,477	12,461	5,477
Less Accumulated Depreciation	(4,916)	(1,390)	(4,916)	(1,390)
	<u>7,545</u>	<u>4,087</u>	<u>7,545</u>	<u>4,087</u>
TOTAL PLANT & EQUIPMENT				
At Cost	1,676,374	1,414,088	12,461	5,477
Less Accumulated Depreciation	(1,142,572)	(1,075,276)	(4,916)	(1,390)
	<u>533,802</u>	<u>338,812</u>	<u>7,545</u>	<u>4,087</u>

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004**

Economic Entity		Parent Entity	
2004	2003	2004	2003
\$	\$	\$	\$

NOTE 10: PLANT & EQUIPMENT CONT.

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.

MOTOR VEHICLES

Balance at beginning of year	47,010	-	-	-
Acquisitions through acquisitions of entities	-	48,465	-	-
Additions	24,678	-	-	-
Depreciation expense	(11,966)	(1,455)	-	-
Carrying amount at end of year	59,722	47,010	-	-

LABORATORY EQUIPMENT

Balance at beginning of year	268,811	-	-	-
Acquisitions through acquisitions of entities	-	275,951	-	-
Additions	3,916	-	-	-
Depreciation expense	(58,673)	(7,140)	-	-
Carrying amount at end of year	214,054	268,811	-	-

FURNITURE & FITTINGS

Balance at beginning of year	15,525	-	-	-
Acquisitions through acquisitions of entities	-	17,134	-	-
Additions	236,118	-	-	-
Depreciation expense	(3,054)	(1,609)	-	-
Carrying amount at end of year	248,589	15,525	-	-

COMPUTER HARDWARE

Balance at beginning of year	3,379	-	-	-
Acquisitions through acquisitions of entities	-	3,203	-	-
Additions	2,590	406	-	-
Depreciation expenses	(2,077)	(230)	-	-
Carrying amount at end of year	3,892	3,379	-	-

PLANT AND EQUIPMENT

Balance at the beginning of the year	4,087	3,614	4,087	3,614
Additions	6,984	1,863	6,984	1,863
Depreciation expense	(3,526)	(1,390)	(3,526)	(1,390)
Carrying amount at end of year	7,545	4,087	7,545	4,087

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004**

		Economic Entity		Parent Entity	
		2004	2003	2004	2003
		\$	\$	\$	\$
NOTE 11: INTANGIBLE ASSET					
	Note				
Goodwill		4,394,276	4,363,880	-	-
Accumulated Amortisation		(236,022)	(16,308)	-	-
		<u>4,158,254</u>	<u>4,347,572</u>	<u>-</u>	<u>-</u>
NOTE 12: PAYABLES CURRENT					
CURRENT					
Trade creditors		622,695	370,792	331,553	141,006
Deferred tax liabilities		-	2,176	-	-
Amounts payable to directors		50,000	26,183	50,000	-
		<u>672,695</u>	<u>399,151</u>	<u>381,553</u>	<u>141,006</u>
NON-CURRENT					
Secured liabilities					
Amounts payable to:					
- other related bodies corporate		-	132,139	-	132,139
- controlled entities		-	-	-	500,000
		<u>-</u>	<u>132,139</u>	<u>-</u>	<u>632,139</u>
NOTE 13 – INTEREST BEARING LIABILITIES					
CURRENT					
Hire Purchase Liabilities	22	<u>18,005</u>	<u>11,178</u>	<u>-</u>	<u>-</u>
NON-CURRENT					
Hire Purchase liabilities	22	<u>36,980</u>	<u>29,385</u>	<u>-</u>	<u>-</u>
NOTE 14: PROVISIONS					
Current					
Employee benefits		<u>114,279</u>	<u>75,421</u>	<u>27,915</u>	<u>-</u>
Non-Current					
Employee benefits		<u>27,106</u>	<u>20,874</u>	<u>-</u>	<u>-</u>
Aggregate employee benefits					
		<u>141,385</u>	<u>96,295</u>	<u>27,915</u>	<u>-</u>
Average number of employees at year end					
		<u>20</u>	<u>24</u>	<u>1</u>	<u>1</u>

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004**

NOTE 15: CONTRIBUTED EQUITY	Note	Economic Entity 2004 \$	2003 \$	Parent Entity 2004 \$	2003 \$
Issued and paid up capital					
32,534,000 ordinary shares fully paid (2003:27,684,000)		<u>6,575,557</u>	5,528,619	<u>6,575,557</u>	5,528,619

	Number of Shares	
Beginning of the financial year	<u>27,684,000</u>	7,320,000
Issued during the year	<u>4,850,000</u>	20,364,000
End of financial year	<u>32,534,000</u>	27,684,000

NOTE 16: RESERVES & ACCUMULATED LOSSES

Asset Revaluation Reserve	370,822	337,012	-	-
Accumulated Losses	<u>1,283,537</u>	(626,591)	<u>(1,068,380)</u>	(603,396)

MOVEMENT IN RESERVE

Asset Revaluation

Balance at beginning of year	337,012	-	-	-
Share of reserves of associate	<u>33,810</u>	337,012	-	-
	<u>370,822</u>	337,012	-	-

Accumulated Losses

Balance at beginning of year	(626,591)	(223,612)	(603,396)	(223,612)
Net loss attributable to members of State Development Fund Limited	<u>(656,946)</u>	(402,979)	<u>(464,984)</u>	(379,784)
Balance at end of year	<u>(1,283,537)</u>	(626,591)	<u>(1,068,380)</u>	(603,396)

NOTE 17: OUTSIDE EQUITY INTEREST

Contributed equity	605,124	605,124	-	-
Reserves	166,601	151,411	-	-
Accumulated losses	<u>(9,643)</u>	(11,706)	-	-
Outside equity interest	<u>762,082</u>	744,829	-	-

NOTE 18: CASH FLOW INFORMATION

(a) Reconciliation of cash

Cash at the end of the financial year as shown in the statement of Cash Flows is reconciled to the related items in the statement of financial position as follows:

Cash at bank	595,860	269,750	79,073	117,281
	<u>595,860</u>	269,750	<u>79,073</u>	117,281

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004**

NOTE 18 Continued

(b) Reconciliation of cash flow from operations with loss from ordinary activities after income tax

	Economic Entity		Parent Entity	
	2004	2003	2004	2003
	\$	\$	\$	\$
Loss from Ordinary Activities	(654,883)	(414,685)	(464,984)	(379,784)
- Depreciation	79,303	19,469	3,526	1,390
- Amortisation of goodwill	219,714	16,308	-	-
- Share of Associates Profits	(81,351)	(76,575)	-	-
- Decrease / (Increase) in Receivables	65,007	(425)	-	(77,000)
- Increase in Payables	264,600	(22,532)	240,547	(22,052)
- Increase in Inventory	(18,436)	-	-	-
- Increase in PDIT	-	1,400	-	-
- Increase in FITB	(14,897)	-	-	-
- Increase in Prepayments	(11,627)	37,204	(11,627)	37,204
- Increase in Provisions	65,150	-	27,915	-
Cash flow from operations	(87,420)	(439,836)	(204,623)	(440,242)

(c) The economic entity acquired plant and equipment with an aggregate fair value of \$24,678 (2003: \$Nil) by way of hire purchase.

(d) Entities Acquired

Purchase price	-	4,500,000	-	4,500,000
less Cash acquired	-	(152,469)	-	-
	-	4,347,531	-	4,500,000

Auspep Holdings Pty Ltd

Subscribed Capital:-

Cash	-	4,000,000	-	4,000,000
Amount payable	-	500,000	-	500,000
	-	4,500,000	-	4,500,000
Outside equity interest at date of acquisition	-	(893)	-	-
	-	4,499,107	-	4,500,000

Australian Regional Airports Pty Ltd

Subscribed Capital:-

Cash	-	500,000	-	500,000
Existing investment	-	500,000	-	500,000
	-	1,000,000	-	1,000,000

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004**

NOTE 18 Continued

Entities Acquired – Auspep Holdings Pty Ltd

	Economic Entity	
	2004	2003
	\$	\$
Fair values of net assets acquired:		
Plant and Equipment	-	344,753
Inventories	-	160,678
Trade Debtors	-	893,358
Cash	-	144,363
Trade Creditors	-	(347,379)
FITB	-	74,013
Interest Bearing Liabilities	-	(29,835)
	-	1,239,951
Goodwill	-	3,709,156
Outside equity interest in acquisitions	-	(450,000)
	-	4,499,107

Entities Acquired–Australian Regional Airports Pty Ltd

Fair value of net assets acquired:		
Cash	-	8,106
Trade Debtors	-	95,275
Investment in Associates	-	490,000
Payables	-	(103,183)
	-	490,198
Goodwill	-	654,721
Outside equity interest in acquisitions	-	(144,919)
	-	1,000,000

NOTE 19: CONTROLLED ENTITIES

Subsidiary: Auspep Holdings Limited

Country of incorporation: Australia

Percentage owned: 90% (2003 - 90%)

Subsidiary: Australian Regional Airports Pty Ltd

Country of incorporation: Australia

Percentage owned: 69% (2003 – 69%)

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004**

**NOTE 20: SEGMENT REPORTING
BUSINESS SEGMENTS**

	PDF Activities		Airport Management		Peptide Manufacturing		Eliminations		Total	
	2004 \$	2003 \$	2004 \$	2003 \$	2004 \$	2003 \$	2004 \$	2003 \$	2004 \$	2003 \$
Revenue										
External Sales	-	71,565	-	18,700	2,785,619	249,532	-	-	2,785,619	339,797
Inter-segment Sales	-	(70,000)	-	-	-	-	-	-	-	(70,000)
Total Revenue	-	1,565	-	18,700	2,785,619	249,532	-	-	2,785,619	269,797
Share of net profit of Associates	-	-	89,326	76,575	-	-	-	-	89,326	76,575
Total segment revenue		1,565	89,326	95,275	2,785,619	249,532	-	-	2,874,945	346,372
Result										
Segment Results	(464,984)	(379,784)	73,284	(10,089)	(206,549)	(19,774)	(56,534)	(5,038)	(654,883)	(414,685)
Assets										
Segment Assets	5,916,645	5,698,368	1,204,088	1,081,804	4,714,614	4,845,449	(4,530,240)	(4,975,004)	7,305,107	6,650,617
Investment in equity accounted associate – included in segment assets	-	-	1,185,349	1,054,998	-	-	-	-	1,185,349	1,054,998
Acquisition of non current assets	6,984	1,863	-	-	267,309	5,106	-	-	274,293	6,969
Liabilities										
Segment liabilities	409,467	773,145	103,184	103,183	444,534	368,820	(77,000)	(577,000)	880,185	668,148

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.

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004**

NOTE 21: COMPANY DETAILS

The registered office and principal place of business of the company is:

State Development Fund Limited
Suite 712, 530 Little Collins Street
Melbourne Vic 3000

NOTE 22: COMMITMENTS

	Economic Entity		Parent Entity	
	2004	2003	2004	2003
	\$	\$	\$	\$
Hire Purchase Commitments				
Not later than one year	21,802	14,108	-	-
but no longer than five years	41,261	32,691	-	-
	63,063	46,799	-	-
Unpaid interest				
Not longer than one year	(3,797)	(2,930)	-	-
But no longer than five years	(4,281)	(3,306)	-	-
	(8,078)	(6,236)	-	-
Current Liability	18,005	11,178	-	-
Non-current liability	36,980	29,385	-	-
	54,985	40,563	-	-
Operating Lease				
Premises at Tullamarine				
- Not later than one year	50,242	50,242	-	-
- Not later than five years	274,764	274,764	-	-
- Later than five years	189,576	239,818	-	-
	514,582	564,824	-	-

	Economic Entity	
	2004	2003
NOTE 23: EARNINGS PER SHARE		
Net Loss	(654,883)	(414,685)
Net loss attributable to outside equity interest	(2,063)	11,706
Earnings used to calculate basis and diluted earnings per share	(656,946)	(402,979)
Weighted average number of ordinary shares used in calculating basis and diluted earning per share	30,051,623	8,770,586

Potential ordinary shares that are not dilutive and not used in the calculation of diluted EPS:
Share options; -1,000,000 Shares.

The share options outstanding were not dilutive, as their conversion would result in a reduction in the loss per share.

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004**

NOTE 24: AUDITOR'S REMUNERATION	Economic		Parent Entity	
	Entity			
	2004	2003	2004	2003
	\$	\$	\$	\$
Audit and Review Fees	24,000	28,000	15,500	15,000
Other Services	22,400	81,500	12,400	81,500
	46,400	109,500	27,900	96,500

NOTE 25: RELATED PARTY DISCLOSURES

Directors

The Directors of the Company during the year were:

Sir Laurence Muir	Michael McDonald
Legh Davis	John Nissen
Peter King	Dr Andrew Ludekens (Appointed 8/12/2003)

Other related party transactions

Management Fee Income – No management fees were charged during the year to Australian Regional Airport Pty Ltd (\$70,000: 2003).

Director-related entity transactions

Loans

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

Acquisition of Entities

The Company completed its subscription of 90% of Auspep Holdings Limited for \$4,500,000 (\$500,000 of which was paid in the period 1 July 2003 – 30 June 2004). Mr. John Nissen is a director and shareholder of both Auspep Holdings and the Company. The Company acquired 69% of Australian Regional Airport Pty Ltd (ARA). Mr John Nissen and Mr. Michael McDonald are directors and shareholders of ARA and the Company.

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004**

NOTE 26: INTEREST RATE RISK EXPOSURE

Financial Instruments

(a) Interest Risk

The economic entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, at balance date, are as follows:

2004

	Non- Interest Bearing	1 Year or less	Over 1 to 5 years	Floating interest rate	Total	Effective interest/rates weighted average interest rate
Financial assets:						
Cash	-	-	-	595,860	595,860	1.7%
Accounts receivable	589,851	-	-	-	589,857	
	<u>589,851</u>	<u>-</u>	<u>-</u>	<u>595,860</u>	<u>1,185,717</u>	-
Financial liabilities:						
Accounts payable	672,595	-	-	-	672,695	-
Borrowings:	-	18,005	36,980	-	54,985	8.1%
	<u>672,695</u>	<u>18,005</u>	<u>36,980</u>	<u>-</u>	<u>727,680</u>	

2003

	Non- Interest Bearing	1 Year or less	Over 1 to 5 years	Floating interest rate	Total	Effective interest/rates weighted Average interest rate
Financial assets:						
Cash	-	-	-	269,750	269,750	1.5%
Accounts receivable	413,458	-	-	-	413,458	
	<u>413,458</u>	<u>-</u>	<u>-</u>	<u>269,750</u>	<u>683,208</u>	-
Financial liabilities:						
Accounts payable	531,290	-	-	-	531,290	-
Borrowings:	-	11,178	29,385	-	40,563	8.35%
	<u>531,290</u>	<u>11,178</u>	<u>29,385</u>	<u>-</u>	<u>571,853</u>	

(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.

**STATE DEVELOPMENT FUND LIMITED
AND CONTROLLED ENTITIES**

DIRECTORS' DECLARATION

In the opinion of the directors of State Development Fund Limited:

- (a) the accompanying financial statements and notes are in accordance with the Corporations Act 2001 comply with the Accounting Standards and give a true and fair view of the company's and the consolidated entity's financial position as at 30 June 2004 and of the performance for the financial year ended on that date.
- (b) 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.

A handwritten signature in blue ink, appearing to read 'L. Muir', with a long, wavy horizontal line extending to the right.

Director and Chairman

Sir Laurence Muir

Dated this 30th day of September 2004

**INDEPENDENT AUDIT REPORT
TO MEMBERS OF STATE DEVELOPMENT FUND LIMITED**

Scope

The Financial Report and Directors' Responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both State Development Fund Limited (the company) and its controlled entities (the consolidated entity), for the year ended 30 June 2004. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit Approach

We have conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We have performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their

performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- (a) examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- (b) assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Audit Opinion

In our opinion, the financial report of State Development Fund Limited is in accordance with:

- (a) 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 2004 and of their performance for the year ended on that date, and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.



PKF
Chartered Accountants

30 September 2004
Melbourne



R A Dean
Partner

Shareholders' Information as at 30 August 2004

Total issued Capital **32,534,000**

Distribution of Shareholdings	Holders	Shares
1 – 1,000	0	0
1,001 – 5,000	4	16,000
5,001 – 10,000	50	420,000
10,001 – 100,000	37	1,218,000
100,001 and over	11	30,880,000
Total number of shareholders	102	32,534,000

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) 1,000,000

Number of holders of unquoted securities (options) 1

Top 10 Shareholders	Number	% Issued Capital
Nefco Nominees Pty Ltd	6,000,000	18.44
Overnight nominees Pty Ltd	6,000,000	18.44
Prime Endeavour Pty Ltd	5,000,000	15.37
Rhys Securities Pty Ltd	3,502,800	10.77
Dr Andrew Ludekens	2,000,000	6.15
Mr Dhilharan Sivaratnam	2,000,000	6.15
Mr Michael McDonald	1,818,800	5.59
Mr Peter King	1,498,600	4.61
Mr John Nissen	1,498,600	4.61
Moonlight Investments Pty Ltd	1,000,000	3.07
Top 10 Total	30,318,800	93.19
Remainder	2,214,000	12.96
Total	32,534,000	100