

State Development Fund Limited

A.C.N. 093 639 064

FINANCIAL REPORT

FOR THE HALF YEAR ENDED 31 DECEMBER 2004

STATE DEVELOPMENT FUND LIMITED
ACN 093 639 064
DIRECTORS' REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2004

The Board of Directors of State Development Fund Limited have pleasure in submitting the financial report of the Consolidated Entity for the half year ended 31 December 2004 and report as follows:

DIRECTORS

The names and particulars of the Directors of the Company in office at any time during or since the end of the period:

Laurence MacDonald Muir	Appointed 30 July 2002
Michael McDonald	Appointed 5 July 2000
John Nissen	Appointed 5 July 2000
Peter King	Appointed 5 July 2000
Lekh Davis	Appointed 30 July 2002
Dr Andrew Ludekens	Appointed 8 December 2003

Directors have been in office since the start of the financial period to the date of this report.

RESULTS FROM OPERATIONS

The consolidated profit of the economic entity for the financial year after providing for income tax and eliminating outside equity interests amounted to \$40,062 compared with a loss of \$230,931 for the previous corresponding period.

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.

In the period from 30 June 2004 until the date of this report, SDF sold 2,787,000 shares in Auspep for gross proceeds of \$975,450 of which in the period ended 31 December 2004 SDF realised revenues of \$888,950. The cost of this investment in relation to disposals to 31 December 2004 was \$606,938. SDF holds now 76% of Auspep.

The Company was awarded an Australian Financial Services Licence on the 1st November 2004 (Licence No 278742). 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 notes 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.

**STATE DEVELOPMENT FUND LIMITED
ACN 093 639 064
AND CONTROLLED ENTITIES
DIRECTORS' REPORT (Cont'd)**

Australian Regional Airports Pty Ltd ("ARA")

For the 6 months period ended 31 December 2004, Burnie Airport Corporation Unit Trust ("BAC") recorded total revenues of \$639,000, in line with its budget of \$654,000. Passenger fees were up 6.8% on the same period with passengers of 45,395 also up over the prior comparative period.

An official valuation undertaken by Rawlinsons, on behalf of BAC, valued the airport activities of BAC at between \$5.6 - \$5.8 million. This valuation excludes the value of the industrial and residential land owned by BAC. BAC acquired the business and assets of the Burnie Wynyard Airport on 1 February 2002 for \$2.5 million.

SDF's owns 69% of ARA, which in turn owns 49% of BAC, the 100% owner of the business and assets of the Burnie Wynyard Airport. This means SDF has an effective 33.81% interest in BAC. 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. John Nissen and Peter King are directors of ARA and directors and shareholders in SDF.

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 and 7.2 hectares for residential development subject to Council planning permission.

Industrial development continues on the rezoned land by BAC and by its tenant Vestas Wind Systems (Vestas), a major Danish manufacturer of wind turbines, which has constructed a \$15 million assembly plant on approximately 5 hectares of airport land provided by BAC. Other spin off businesses and new potentials for the industrial park are currently being contemplated.

Auspep Holdings Limited ("Auspep")

Auspep Pty Ltd, the main operating entity in the Auspep group, recorded total revenues in the 6 months period to 31/12/2004 of \$1.45 million in line with its budget of \$1.46 million, while its net profit before tax of \$58,119 was 77% higher than budget.

Currently, there are 36 shareholders on the Auspep share register. Auspep Pty Ltd is a wholly owned subsidiary of Auspep.

Auspep is constructing a GMP accredited manufacturing facility with estimated completion in August 2005. This new plant is located on leased premises at Tullamarine in Victoria. When GMP accreditation is granted, this will have a significant positive effect on Auspep's business, as it will then seek TGA certification for its manufacturing process and subsequently CEMark (Europe) followed by FDA (USA) approvals. 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.

**STATE DEVELOPMENT FUND LIMITED
ACN 093 639 064
AND CONTROLLED ENTITIES
DIRECTORS' REPORT (Cont'd)**

Auspep Holdings Limited (Cont'd)

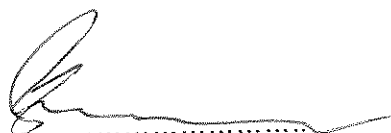
The other current objectives of the Board of Auspep are:

- 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.
- To seek listing of Auspep Holdings Limited on the Australian Stock Exchange as previously advised.

**LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE
CORPORATIONS ACT 2001**

The Lead Auditor's independence Declaration is set out page 5 and forms part of the Directors Report for the half - year ended 31 December 2004.

Signed in accordance with a resolution of Directors



LM Muir
Chairman and Director

31 March 2004
Melbourne

STAT05/AUD

Chartered Accountants
& Business Advisers

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The Directors
State Development Fund Limited
Suite 712
530 Little Collins Street
MELBOURNE VIC 3000

Dear Sirs

As lead engagement partner for the review of State Development Fund Limited for the half year ended 31 December 2004, 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 in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.



PKF
Chartered Accountants



R A Dean
Partner

31 March 2005
Melbourne

**INDEPENDENT REVIEW REPORT
TO THE MEMBERS OF STATE DEVELOPMENT FUND LIMITED**

Scope

We have reviewed the financial report of State Development Fund Limited for the half-year ended 31 December 2004 comprising the Consolidated Statement of Financial Performance, Consolidated Statement of Financial Position, Consolidated Statement of Cash Flows, Notes to the Financial Statements and Directors Declaration. The financial report includes the consolidated financial statements of the consolidated entity comprising the disclosing entity and the entities it controlled at the end of the half year or from time to time during the half year.

The disclosing entity's directors are responsible for the financial report. We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 1029: Interim Financial Reporting, other mandatory professional reporting requirements and statutory requirements so as to present a view which is consistent with our understanding of the Company's financial position and performance as represented by the results of its operations and its cash flows, and in order for the Company to meet its obligations to lodge the financial report with the Australian Securities and Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of the Company's personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

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

The auditor's independence declaration provided to the relevant directors would be in the same terms if it had been provided at the time of the review report was made.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of State Development Fund Limited is not 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 31 December 2004 and of its performance for the half-year ended on that date; and
 - (ii) complying with Accounting Standard AASB 1029: Interim Financial Reporting and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements



PKF
Chartered Accountants



R A Dean
Partner

31 March 2005
Melbourne

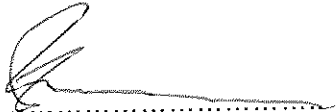
A Victorian Partnership

STATE DEVELOPMENT FUND LIMITED
ACN 093 639 064
DIRECTORS' DECLARATION
FOR THE HALF YEAR ENDED 31 DECEMBER 2004

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 Consolidated Entity's financial position as at 31 December 2004, and of its performance for the half year ended on that date; and
- 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.

Signed in accordance with the resolution of the directors



LM Muir
Chairman and Director

31 March 2004
Melbourne

STATE DEVELOPMENT FUND LIMITED
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE
FOR THE HALF YEAR ENDED 31 DECEMBER 2003

	Note	31 December 2004 \$'000	31 December 2003 \$'000
Revenue	2	2,370,381	1,559,492
Interest		2,441	890
Cost of Sales		(910,541)	(988,128)
Administrative Expenses		(485,934)	(553,401)
Marketing Expense		(310,052)	(255,848)
Occupancy Expense		(82,283)	(42,253)
Borrowing Costs		(11,547)	(977)
Net Value of Investments disposed of		(606,938)	-
Share of Net Profit of associate accounted for using the equity method		76,900	63,129
PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		42,427	(217,096)
Income tax expense attributable to ordinary activities		-	(4,730)
PROFIT/(LOSS) FROM ORDINARY ACTIVITIES AFTER INCOME TAX		42,427	(221,826)
Net profit attributable to outside equity interest		(2,365)	(9,105)
NET PROFIT/(LOSS) ATTRIBUTABLE TO MEMBERS OF STATE DEVELOPMENT FUND LIMITED		40,062	(230,931)
Increase in asset revaluation reserve arising from Re-valuation on non-current assets of associate		1,109,642	-
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS		1,149,704	(230,931)
Basic earnings per share (cents per share)		0.13 cents	(0.83) cents
Diluted earnings per share (cents per share)		0.13 cents	(0.83) cents

The condensed consolidated statement of financial performance above is to be read in conjunction with the attached notes.

STATE DEVELOPMENT FUND LIMITED
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE HALF YEAR ENDED 31 DECEMBER 2004

	31 December 2004 \$'000	30 June 2004 \$'000
CURRENT ASSETS		
Cash assets	1,203,643	595,860
Receivables	392,917	589,851
Inventories	196,960	179,114
Prepayments	-	11,627
TOTAL CURRENT ASSETS	1,793,520	1,376,452
NON-CURRENT ASSETS		
Investments accounted for using the equity method	2,864,399	1,185,349
Property, plant and equipment	682,511	533,802
Intangible assets	3,995,536	4,158,254
Deferred tax assets	51,250	51,250
TOTAL NON-CURRENT ASSETS	7,593,696	5,928,655
TOTAL ASSETS	9,387,216	7,305,107
CURRENT LIABILITIES		
Payables	581,090	672,695
Interest bearing liabilities	16,896	18,005
Provisions	106,584	114,279
Tax liabilities	11,118	11,118
TOTAL CURRENT LIABILITIES	715,688	816,097
NON-CURRENT LIABILITIES		
Interest bearing liabilities	34,804	36,980
Provisions	18,750	27,106
TOTAL NON-CURRENT LIABILITIES	53,554	64,086
TOTAL LIABILITIES	769,242	880,183
NET ASSETS	8,617,974	6,424,924
SHAREHOLDERS EQUITY		
Contributed equity	6,575,557	6,575,557
Asset revaluation reserves	1,480,464	370,822
Accumulated losses	(1,243,475)	(1,283,537)
TOTAL PARENT ENTITY INTEREST	6,812,546	5,662,842
TOTAL OUTSIDE EQUITY INTEREST	1,805,428	762,082
TOTAL SHAREHOLDERS EQUITY	8,617,974	6,424,924

The condensed consolidated statement of financial position is to be read in conjunction with the attached notes

STATE DEVELOPMENT FUND LIMITED
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2004

	31 December 2004 \$'000	31 December 2003 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	1,454,381	1,502,887
Payments to suppliers and employees	(1,630,696)	(1,414,575)
Interest received	2,853	890
Interest paid	(11,346)	(977)
Distributions Received	89,326	95,275
Income Tax Paid	-	(4,730)
NET CASH FLOWS FROM OPERATING ACTIVITIES	(95,482)	178,770
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on sale of investments	888,950	-
Proceeds from sale of plant and equipment	22,800	-
Payments for property, plant and equipment	(180,548)	(217,280)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	731,202	(217,280)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from share issue	-	37,464
Lease principal repayments	(27,937)	(5,477)
NET CASH FLOWS FROM FINANCING ACTIVITIES	(27,937)	31,987
NET DECREASE IN CASH HELD	607,783	(6,523)
Cash at beginning of period	595,860	269,750
CASH AT THE END OF PERIOD	1,203,643	263,227

The condensed consolidated statement of cash flows above is to be read in conjunction with the attached notes.

STATE DEVELOPMENT FUND LIMITED
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2004

NOTE 1 BASIS OF PREPARATION

BASIS OF CONDENSED ACCOUNTING

The half year consolidated financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and Accounting Standard AASB 1029 "Interim Financial Reporting". The 31 December 2004 half-year financial report is to be read in conjunction with financial report for the year ended 30 June 2004 and any public announcements made by the Company during the half year in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

Notes of a type normally included in an annual financial report are not included.

The accounting policies adopted in the preparation of the half year financial report are consistent with those adopted and disclosed in the 30 June 2004 annual financial report.

31 December	31 December
2004	2003
\$'000	\$'000

NOTE 2 REVENUE

REVENUES FROM ORDINARY ACTIVITIES

Sales Revenue	1,432,989	1,538,120
Proceeds on disposal of Investments	888,950	-
Other Revenue	48,442	21,372
	<u>2,370,381</u>	<u>1,559,492</u>

NOTE 3 SEGMENT INFORMATION

31 December 2004

	PDF Activities	Airport Management	Peptide Manufacturing	Eliminations	Total
	\$	\$	\$	\$	\$
Revenue	888,950	102,555	1,468,200	(9,983)	2,449,722
Results	196,568	(31,015)	(111,108)	(12,018)	42,427

31 December 2003

	PDF Activities	Airport Management	Peptide Manufacturing	Eliminations	Total
	\$	\$	\$	\$	\$
Revenue	805	63,161	1,559,545	-	1,623,511
Results	(185,472)	47,415	(55,936)	(27,833)	(221,826)

**STATE DEVELOPMENT FUND LIMITED
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2004**

NOTE 4 SIGNIFICANT AFTER BALANCE DATE EVENTS

No matters or circumstances have arisen since the end of the financial period which have significantly affected or may significantly affect the operations of the consolidated entity, the results of the operations, or the state of affairs of the consolidated entity in future financial periods.

NOTE 5 CONTINGENT ASSETS AND LIABILITIES

There are no contingent assets or contingent liabilities.

NOTE 6 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 Company'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 consolidated 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 the fair value less costs to sell and value in use. It is likely that this change in accounting policy may 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 consolidated entity is to amortise goodwill on a straight line basis over a period of twenty years.

INCOME TAX

Currently, the consolidated entity 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 consolidated 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.